

Exhibit 49

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

1 IN THE UNITED STATES DISTRICT COURT
2 FOR THE DISTRICT OF MASSACHUSETTS
3 CIVIL ACTION 01-CV-12257-PBS

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7 IN RE:

8 PHARMACEUTICAL INDUSTRY AVERAGE :

9 WHOLESALE PRICE LITIGATION :

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January 5, 2005

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15 Deposition upon oral examination of
16 DAVID B. MORRIS, taken on behalf of the Defendants,
17 before Heidi L. Jeffreys, RDR, CRR, a Notary Public for
18 the Commonwealth of Virginia at Large, commencing at
19 1:40 p.m. on the 5th day of January, 2005, at the law
20 offices of Anthem, Inc., 2235 Staples Mill Road, Suite
21 401, Richmond, Virginia.

22

EXHIBIT

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2 (Pages 2 to 5)

<p>1 Appearances:</p> <p>2 On behalf of the Plaintiff: (By telephone) 3 ED NOTARGIACOMO, ESQUIRE 4 Hagens Berman 5 One Main Street 6 Fourth Floor 7 Cambridge, Massachusetts 02142 8 (617) 482-3700</p> <p>9 On behalf of the Defendants: 10 WILLIAM F. CAVANAUGH, ESQUIRE 11 Patterson, Belknap, Webb & Tyler, LLP 12 1133 Avenue of the Americas 13 New York, New York 10036 14 (212) 336-2000</p> <p>15 On behalf of Anthem, Inc.: 16 JOHN B. NICHOLSON, ESQUIRE 17 2235 Staples Mill Road 18 Suite 401 19 Richmond, Virginia 23230 20 (804) 354-7697 21 In-house counsel</p>	<p>2</p> <p>1 DAVID B. MORRIS, called as a witness, 2 having been first duly sworn, was examined and testified 3 as follows:</p> <p>4 EXAMINATION</p> <p>5 BY MR. CAVANAUGH:</p> <p>6 Q. Would you state your name. 7 A. David B. Morris, M-O-R-R-I-S.</p> <p>8 MR. NICHOLSON: We'll have the same 9 statement on the record, Bill?</p> <p>10 MR. CAVANAUGH: Similar to the earlier 11 deposition, this deposition is being designated by 12 Anthem as highly confidential pursuant to the governing 13 protective order in this case.</p> <p>14 BY MR. CAVANAUGH:</p> <p>15 Q. By whom are you employed, Mr. Morris? 16 A. Anthem Blue Cross Blue Shield.</p> <p>17 Q. When did you join Anthem? 18 A. I've been with the company 17 years, so, 19 '87, December of '87.</p> <p>20 Q. Could you give me, starting back in 1987, 21 the positions you've held within the company and then 22 just a brief summary of your responsibilities in those</p>									
<p>1 INDEX</p> <p>2 WITNESS</p> <p>3 ON BEHALF OF THE DEFENDANTS: Examination by: Page</p> <p>4 D. B. Morris Mr. Cavanaugh 4</p> <p>5</p> <p>6</p> <p>7 EXHIBITS</p> <p>8</p> <table border="1"> <thead> <tr> <th>No.</th> <th>Description</th> <th>Page</th> </tr> </thead> <tbody> <tr> <td>12</td> <td>Exhibit Morris 002 Integrated prescription drug program master agreement dated 1-1-98</td> <td>18</td> </tr> <tr> <td>15</td> <td>Exhibit Morris 003 Integrated prescription drug program master agreement dated 1-1-01</td> <td>30</td> </tr> </tbody> </table> <p>11</p> <p>12</p> <p>13</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p>	No.	Description	Page	12	Exhibit Morris 002 Integrated prescription drug program master agreement dated 1-1-98	18	15	Exhibit Morris 003 Integrated prescription drug program master agreement dated 1-1-01	30	<p>3</p> <p>1 positions?</p> <p>2 A. I was a market research analyst for 3 approximately five years, and my responsibilities were 4 initiating market research, reviewing, analyzing market 5 research, conducting focus groups, stuff like that.</p> <p>6 I moved to a position within health care 7 management. I was like an operations research analyst. 8 That was doing -- no, sorry. Outcomes research analyst. 9 I was doing outcomes research within health care 10 management.</p> <p>11 And then probably about '97 I moved over 12 into my current position, which was within the pharmacy 13 management department, initially as a clinical 14 pharmacist doing things like utilization review, 15 formulary management, prior authorization.</p> <p>16 I moved into the manager's position within 17 the department about four years ago, so about 2001. At 18 this point I'm responsible for the entire operations of 19 the department.</p> <p>20 Q. And what is the title of the department?</p> <p>21 A. It's still pharmacy management. We're 22 under the health care management division. We</p> <p>5</p>
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15	Exhibit Morris 003 Integrated prescription drug program master agreement dated 1-1-01	30								

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

3 (Pages 6 to 9)

<p>1 coordinate pharmacy benefits for all of our customers, 2 internal as well as external. That includes customer 3 support, training, managing, again, utilization review, 4 prior authorization, appeals, reconsiderations, the 5 benefit overall.</p> <p>6 Q. And you would have held that position since 7 1997 -- well, you would have been in that department 8 since 1997?</p> <p>9 A. Roughly.</p> <p>10 Q. What group within Anthem is responsible for 11 negotiating the pharmacy networks that are utilized by 12 the various Anthem plans?</p> <p>13 A. In '97 it was my department solely 14 responsible -- it was my department's responsibility to 15 do that through our pharmacy benefits manager.</p> <p>16 Roles and responsibilities have -- you 17 know, it's like a moving target. They have changed over 18 the years, and now it's probably -- it's still my 19 department, but we have input, probably, from the 20 medical director, the chief health care officer, as well 21 as probably product strategy, sales and marketing as 22 well.</p>	<p>6</p> <p>1 A. That's correct.</p> <p>2 MR. NICHOLSON: And, as in the last 3 deposition, "Anthem" refers to the Virginia entity which 4 was previously Trigon and had other names before that, 5 during the time period --</p> <p>6 MR. CAVANAUGH: When I say "Anthem" I'm 7 referring back to the organization you joined back in 8 1987 to the one that sends you a paycheck today.</p> <p>9 THE WITNESS: Okay.</p> <p>10 BY MR. CAVANAUGH:</p> <p>11 Q. And is one of the things that PAID 12 Prescriptions provides to Anthem pursuant to those 13 agreements a network of retail pharmacies?</p> <p>14 A. Yes.</p> <p>15 Q. To what extent over the years have you been 16 involved in the negotiations with PAID over those -- the 17 terms of those agreements?</p> <p>18 MR. NICHOLSON: Referring to the PBM 19 agreements themselves?</p> <p>20 MR. CAVANAUGH: Yes.</p> <p>21 THE WITNESS: There was an existing 22 agreement when I came into the department. I played no</p>
<p>1 Q. And to whom do you report?</p> <p>2 A. I report to a vice president, who reports 3 to the chief health care officer.</p> <p>4 Q. Okay. The vice president is responsible 5 for what department or group?</p> <p>6 A. He's responsible for pharmacy management 7 department as well as an area called medical informatics 8 Either "infomatics" or "informatics." I've heard it 9 pronounced both ways.</p> <p>10 Q. And to whom does that person report?</p> <p>11 A. He reports to the chief health care 12 officer.</p> <p>13 Q. And who is that?</p> <p>14 A. Randy Axelrod.</p> <p>15 Q. Okay. Am I correct that over the years 16 Anthem has had contracts with PAID Prescriptions for the 17 establishment of pharmacy networks?</p> <p>18 A. I'm sorry. Repeat the first part of the 19 question again.</p> <p>20 Q. Well, I'll ask it more simply. 21 Am I correct that over the years Anthem has 22 had contracts with a group known as PAID Prescriptions?</p>	<p>7</p> <p>1 role in the negotiation of those network terms.</p> <p>2 We did renegotiate the network, and I was 3 involved with that, I think, during the year 2000. We 4 actually went out to bid and PAID -- or Merck-Medco at 5 the time, which is now Medco Health Solutions -- 6 basically as part of our contract re-do. You know, we 7 wanted a new network with different terms, and I was 8 involved with that.</p> <p>9 Q. Why did you want a new network?</p> <p>10 A. Deeper discounts.</p> <p>11 Q. Deeper discounts on the reimbursement to 12 the pharmacy?</p> <p>13 A. Correct.</p> <p>14 Q. Now, as part -- in reviewing these 15 agreements with PAID I've noticed that they also include 16 terms for mail order, they've included terms dealing 17 with rebates. To what extent would you have also been 18 involved in those components of these agreements?</p> <p>19 A. You know, certainly aware internally in 20 discussing with internal management, not directly 21 involved with negotiating with the PBM directly.</p> <p>22 The way it typically worked would be we</p>

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

4 (Pages 10 to 13)

<p>1 would discuss it internally, and then whoever was the 2 main individual who was dealing in the contract 3 negotiations with the PBM, that individual would go 4 represent the group.</p> <p>5 Q. Was it part --</p> <p>6 A. It was usually internal pharmacy management 7 staff.</p> <p>8 Q. All right. So you have an internal 9 pharmacy -- well, let me ask the different groups that 10 were involved in providing input internally to the 11 ultimate negotiation that you had with the PBM.</p> <p>12 What were the different groups that were 13 involved in that?</p> <p>14 MR. NICHOLSON: Can you give a time frame?</p> <p>15 BY MR. CAVANAUGH:</p> <p>16 Q. When you came on board in '97 and moving 17 forward.</p> <p>18 A. Corporate finance would play a role, sales 19 and marketing --</p> <p>20 Q. What role would sales and marketing play?</p> <p>21 A. Really, trying to ensure an adequate 22 network, something that wasn't going to disrupt a lot of</p>	<p>10</p> <p>1 A. I really don't know the answer to that 2 question. I probably have been involved on the 3 periphery and have heard some of the kinds of discussion 4 around rebates, but usually I didn't participate in any 5 of those meetings in any kind of detail.</p> <p>6 Q. Who would be driving those, the discussions 7 on that issue?</p> <p>8 A. Previously it was my former boss in 9 corporate finance.</p> <p>10 Q. Who is your former boss?</p> <p>11 A. Ron Lyon, L-Y-O-N. He's no longer with the 12 company.</p> <p>13 Q. Do you know where he is currently?</p> <p>14 A. Yes, I do.</p> <p>15 Q. What company is he with now?</p> <p>16 A. Towers Perrin.</p> <p>17 Q. Okay. Did Towers Perrin also serve as a 18 consultant to Anthem in any of its negotiations?</p> <p>19 A. No. Not to my knowledge, no.</p> <p>20 Q. Okay. Is it possible it could have been 21 involved and you wouldn't know about it? I saw a 22 document referring to them, which is why I ask the</p>
<p>1 business; really more, you know, disseminating the 2 information kind of proactively, really, was kind of how 3 I viewed it. They didn't play a relative role and say, 4 you need to ask for this particular discount or this 5 particular dispensing fee, it's more a collaborative 6 discussion of the issue at hand and then coming to a 7 consensus as a group. And since they've got to go out 8 and sell the product and be able to explain why we did 9 it, impact to our customers, et cetera.</p> <p>10 Q. So, corporate finance, sales and marketing. 11 What other groups?</p> <p>12 A. Maybe actuarial, but I don't recall 13 actuarial getting involved early on.</p> <p>14 Q. What group would be principally responsible 15 for evaluating rebates from the PBM?</p> <p>16 A. Probably corporate finance more than 17 pharmacy.</p> <p>18 Q. Okay. I mean, did you folks get involved 19 in evaluating, for example, what the split should be; 20 should there be a sharing of rebates, should Trigon or 21 Anthem get a hundred percent, and how that would 22 interact with other terms in the agreement?</p>	<p>11</p> <p>1 question.</p> <p>2 MR. NICHOLSON: Object to the form.</p> <p>3 THE WITNESS: I suppose it's possible, but 4 I don't know, really, what role they would have played 5 in those negotiations.</p> <p>6 BY MR. CAVANAUGH:</p> <p>7 Q. Okay. Well, not necessarily in the 8 negotiations but in providing advice or consultation to 9 Anthem in negotiating with the PBM.</p> <p>10 MR. NICHOLSON: Same objection.</p> <p>11 THE WITNESS: I'm 99 percent sure that 12 Towers Perrin was not involved in any kind of 13 negotiation with the PBM.</p> <p>14 BY MR. CAVANAUGH:</p> <p>15 Q. Okay. As I looked through the contracts 16 that have been produced by Anthem, there seems to be an 17 evolution in the names of the various entities with whom 18 Anthem was contracting. It started with PAID 19 Prescription; then a company known as National was 20 involved in providing the mail order component.</p> <p>21 Does that -- did you have any dealings with 22 National?</p>

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

5 (Pages 14 to 17)

<p>1 A. That was actually -- yes, I did.</p> <p>2 Q. Okay. And then in 1998 Merck-Medco became 3 involved. Is that correct?</p> <p>4 A. Correct. And I assume you're just talking 5 about changes in names.</p> <p>6 Q. Well, that was my next question: 7 Can you tell me what the relationship was 8 between those three entities that we just talked about?</p> <p>9 A. PAID Prescriptions was the original entity, 10 the original PBM that was started -- I don't know -- 11 probably 20 years ago, at this point. Its mail service 12 business was named National RX Services. I cannot tell 13 you whether that was something PAID -- whether that was 14 a company PAID purchased or whether it was something 15 they built internally, but that's the naming convention 16 they used.</p> <p>17 At the point Merck acquired PAID 18 Prescriptions it became Merck-Medco, I believe, and then 19 eventually Medco Health Solutions, and now -- I'm not 20 sure what its name is now.</p> <p>21 Q. Was there a preexisting Medco entity before 22 the Merck acquisition?</p>	<p>14</p> <p>1 forward.</p> <p>2 THE WITNESS: Okay.</p> <p>3 MR. CAVANAUGH: I think the best way to do 4 this is to just work through the agreements. 5 (There was a pause in the proceedings.)</p> <p>6 BY MR. CAVANAUGH:</p> <p>7 Q. Pursuant to the agreements with PAID 8 Prescriptions that you've had over the years, does PAID 9 then, in turn, enter into agreements with individual 10 pharmacies, or pharmacy chains?</p> <p>11 A. Yes.</p> <p>12 Q. Does Anthem have access to those 13 agreements?</p> <p>14 A. No.</p> <p>15 Q. Okay. Does Anthem have any understanding 16 of the relationship between what it has agreed to pay 17 PAID for reimbursement and what PAID, in turn, has 18 negotiated with a particular retail pharmacy or pharmacy 19 chain for reimbursement?</p> <p>20 A. Was your question do we know what we're 21 paying PAID and then what PAID is, in return, paying the 22 pharmacy provider?</p>
<p>1 A. There may have been, yes.</p> <p>2 Q. Okay.</p> <p>3 A. Yeah, I think there probably was, because 4 when Merck bought them that's when they became 5 Merck-Medco.</p> <p>6 Q. Do you know what the arrangement was 7 between PAID Prescriptions and Merck-Medco?</p> <p>8 A. My assumption was it was one and the same 9 company.</p> <p>10 MR. NICHOLSON: I'll just tell you he 11 doesn't want you to assume, and I don't, either, but if 12 you know, you certainly need to answer the question.</p> <p>13 THE WITNESS: And by "know" I assume you 14 mean some way I verified on my own, independent of 15 having a discussion with these folks.</p> <p>16 BY MR. CAVANAUGH:</p> <p>17 Q. It depends on the context of the question. 18 It may be something you came to understand by virtue of 19 being in the business many years --</p> <p>20 MR. NICHOLSON: There's a basis of fact 21 beyond mere speculation or assumption, so the line is 22 not always black, but I just offer that caution going</p>	<p>15</p> <p>1 Q. Yes.</p> <p>2 A. Yes, we know what that relationship is.</p> <p>3 Q. Okay. How do you know what PAID is paying 4 the pharmacy provider?</p> <p>5 A. I suppose, when I stop and think about it 6 now, I think we really probably don't know what they're 7 paying them. We know what we asked them to set up as a 8 network in terms of the network discount, but in terms 9 of seeing the check and seeing -- you know, verifying 10 what the pharmacy billed and what they got reimbursed, 11 we do not have knowledge of that.</p> <p>12 Q. Okay. I understand you don't see the 13 checks that are cut, that sort of thing, but my question 14 isn't -- my question is a little different, which is do 15 you have some understanding as to the reimbursement 16 formula that PAID is using with its -- with the pharmacy 17 providers that it contracts with?</p> <p>18 A. Yes. I mean, that's what we specify, you 19 know, PAID to do for us; set up a network with the 20 following terms.</p> <p>21 Q. All right. I just wanted to make sure that 22 I understood. So, when I look at your contract with</p>

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

6 (Pages 18 to 21)

<p>1 PAID and it says, for example, set up a network where 2 pharmacists are reimbursed at AWP minus 18 and no 3 dispensing fee --</p> <p>4 A. Right.</p> <p>5 Q. -- it's your understanding, then, that PAID 6 establishes a network with that as the reimbursement 7 formula?</p> <p>8 A. Yes.</p> <p>9 Q. Okay.</p> <p>10 MR. CAVANAUGH: Why don't we mark this as 11 Exhibit Morris 002.</p> <p>12 (The document was marked as Exhibit Morris 002.)</p> <p>13 (There was a pause in the proceedings.)</p> <p>14 BY MR. CAVANAUGH:</p> <p>15 Q. We've marked as Anthem VA 002 a document 16 entitled "Integrated Prescription Drug Program Master 17 Agreement" bearing the date entered into as of January 18 1st, 1998.</p> <p>19 A. Okay.</p> <p>20 Q. Are you familiar with this agreement?</p> <p>21 A. Yes.</p> <p>22 Q. Now, this is an agreement between PAID</p>	<p>18</p> <p>1 status report.</p> <p>2 MR. NICHOLSON: It's actually a letter 3 dated November 3, 1998 which is attached.</p> <p>4 BY MR. CAVANAUGH:</p> <p>5 Q. Let me ask you to turn to page 9 of the 6 agreement, page 9, paragraph 6.2, Formulary Rebates. It 7 states, "Merck-Medco Managed Care, LLC receives 8 formulary rebates from certain drug manufacturers as a 9 result of the inclusion of such manufacturer branded 10 products on the formulary. PAID will provide Trigon 11 with 70 percent of the formulary rebates received by 12 Medco based on the dispensing of each manufacturer's 13 formulary drugs under Trigon's program." And it goes on 14 to say, "PAID shall retain 30 percent."</p> <p>15 A. Uh-huh.</p> <p>16 Q. I understand you weren't involved in the 17 negotiations, but did you come to understand how the 18 parties arrived at that 70/30 split of rebates?</p> <p>19 A. No. I -- no. Probably standard business 20 practice on the part of the PBM, would be my assumption, 21 but, again, that's an assumption.</p> <p>22 Q. Were you aware prior to this agreement that</p>
<p>1 Prescriptions, Merck-Medco and Trigon, correct?</p> <p>2 A. Correct.</p> <p>3 Q. Were you involved in the negotiation of 4 this agreement?</p> <p>5 A. No.</p> <p>6 Q. Now, you had come into the group in 1997. 7 Why were you not involved in the negotiation of this 8 agreement?</p> <p>9 A. I think this agreement was already in the 10 works when I came into the department. In other words, 11 they had been discussing it for some extensive period of 12 time. And in my initial role in the department I was a 13 clinical pharmacist first, so I was not directly 14 involved in any kind of management of the business side 15 of the benefit. This was -- actually, I think, the 16 medical policy director at the time was Larry Colley, if 17 I recall correctly.</p> <p>18 Yeah. There's his name right there 19 (indicating).</p> <p>20 Q. You're referring to the signature page of 21 the agreement?</p> <p>22 A. Yeah -- or this is actually some project</p>	<p>19</p> <p>1 the agreement with PAID provided for a hundred percent 2 of the rebates to go to Trigon -- or Anthem?</p> <p>3 A. Am I aware of that?</p> <p>4 Q. Yes.</p> <p>5 A. No.</p> <p>6 Q. Was there a subsequent amendment to this 7 agreement with PAID and with Merck that adjusted the 8 rebates -- adjusted this rebate formula?</p> <p>9 A. An amendment to this agreement?</p> <p>10 Q. Yes.</p> <p>11 A. No, not to my knowledge.</p> <p>12 Q. Was there a new agreement entered into with 13 PAID and with Merck that dealt with, among other things, 14 rebates?</p> <p>15 A. Yes, there was.</p> <p>16 Q. And as part of that agreement did Anthem 17 negotiate for 100 percent of the rebates?</p> <p>18 A. No, not technically.</p> <p>19 Q. Okay. Why not?</p> <p>20 A. We negotiated a guaranteed amount on a 21 per-claim basis that was really independent of rebates. 22 I think in our mind we were replacing rebates with this</p>

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

7 (Pages 22 to 25)

1 amount, but we more or less told Medco; we don't care
 2 what your rebates are, what are you willing to guarantee
 3 us so that we can plan and so that we can, you know,
 4 give this money back to our customers on an ongoing
 5 basis.

6 Q. And was that the agreement that you
 7 negotiated with PAID and with Merck -- with Medco?

8 A. I was involved with that one, yes.

9 Q. Okay. And what you just described to me,
 10 was that the outcome of the negotiation?

11 A. Yes.

12 Q. Explain to me why Anthem was of the view
 13 that it didn't care about the rebates that Medco got; it
 14 instead wanted to focus on a guaranteed return to
 15 Anthem.

16 MR. NICHOLSON: Do you want him to expand
 17 upon what -- he's already addressed part of that, I
 18 believe.

19 BY MR. CAVANAUGH:

20 Q. Yeah, if you could, just explain to me what
 21 Anthem's thinking was in seeking this new type of -- as
 22 you saw it, this new type of arrangement.

22

24

1 also the result of soliciting multiple offers from PBMs?

2 A. I don't know with absolute certainty, but
 3 it was my impression that it was not an RFP process,
 4 again, coming into it kind of in the middle or toward
 5 the very end of the entire negotiation.

6 Q. As I look at paragraph 6.3 in the 1998
 7 agreement there is a reference to "guaranteed formulary
 8 rebates."

9 Could you take a look at that provision and
 10 tell me how the provision you negotiated in the
 11 subsequent agreement differed?

12 (There was a pause in the proceedings.)

13 MR. NICHOLSON: Do you want to point us to
 14 the language you're looking at?

15 BY MR. CAVANAUGH:

16 Q. Well, it's more the term "guaranteed
 17 formulary rebates," not in the body. The heading is
 18 "Guaranteed Formulary Rebates," and I took from your
 19 answer earlier when you referred to the benefits you saw
 20 in the 2001 agreement that there were guaranteed
 21 payments from Medco to Anthem, so I was wondering how
 22 they differed.

23

25

1 A. It was a way of eliminating the
 2 uncertainty, I guess, or unknown value of rebates on a
 3 going-forward basis. PBMs held all the contracts; PBMs
 4 talked with the manufacturers. We had no way of knowing
 5 what the PBM had agreed to with the manufacturer, so we
 6 had no way to project going forward what those rebates
 7 were going to be.

8 In addition, Medco was notoriously delayed
 9 in paying those moneys, so in some cases we were nine to
 10 twelve months out from the actual rebate period where
 11 the rebates were supposedly earned, and the time value
 12 of money being what it is, we wanted those moneys a
 13 little quicker than nine to twelve months out.

14 We were in a competitive bid situation,
 15 too, so, you know, we threw it out there among two or
 16 three different PBMs that we were negotiating with at
 17 the time.

18 Q. What other PBMs were you negotiating with?

19 A. Express Scrips, and there was another one
 20 that eventually got acquired by Medco, I think,
 21 actually. I don't recall the name of it.

22 Q. The 1998 agreement with Medco, was that

1 MR. NICHOLSON: Let me just object, because
 2 I think his prior answer distinguished the 2001
 3 methodology from this and explained the benefits.

4 But if you can add to that, please do.

5 THE WITNESS: As I recall, it is -- it's
 6 the language that specifically refers to "branded
 7 formulary claims."

8 That's what this guarantee is, and, again,
 9 since Medco holds all the contracts, they know what's
 10 formulary and what's not formulary from their
 11 perspective. And we didn't always follow their
 12 formulary recommendations.

13 So, they may know it's a brand -- I mean,
 14 we know, certainly, the difference between a brand and a
 15 generic script, but we don't know what their formulary
 16 consisted of in absolute terms.

17 BY MR. CAVANAUGH:

18 Q. But as part of this agreement weren't you
 19 supposed to adopt the Medco formularies?

20 A. We were, in large part, but we did not
 21 always do that in absolute terms.

22 Q. I see.

David B. Morris

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Richmond, VA

January 5, 2005

8 (Pages 26 to 29)

<p>1 A. And, again, what this is guaranteeing is 2 those branded formulary claims. The subsequent 3 agreement, as I recall, took that language out and said 4 it's on a per-claim basis. We don't want to have to try 5 and figure out what's formulary versus non-formulary. 6 We want to be able to at the end of the month count our 7 claims and say, you owe us this. So, it was much easier 8 to get to. This, you had to rely on the PBM to tell 9 you, this is what it is, take our word for it.</p> <p>10 Q. And the reason you would have to rely on 11 that is that there could be differences between the 12 Medco-formulary and the formulary that Anthem actually 13 had decided to utilize for certain plans?</p> <p>14 A. Uh-huh. And they're earning moneys on 15 claims, and only they know they're earning it. I mean, 16 they could theoretically -- you know, because we don't 17 know -- withhold parts of those moneys, if they chose.</p> <p>18 Q. Did Anthem have the right under these 19 agreements to go in and audit?</p> <p>20 A. I'm sure we did.</p> <p>21 Q. Did Anthem ever audit?</p> <p>22 A. Not for this agreement.</p>	<p>26</p> <p>1 after the new agreement was in place in 2001? 2 A. Yes. 3 Q. What were the results of that audit? 4 A. Paraphrasing at a real high level here, 5 errors both in the positive and the negative, moneys 6 that were not paid that should have been paid, and 7 moneys that were paid but should not have been paid, and 8 the amounts in both a positive and negative direction 9 really kind of netted out to zero.</p> <p>10 So, the overall assessment was, you know, 11 Medco's got some real problems in terms of how they 12 administer and pay rebate moneys out from a systems and 13 accounting perspective, but we think you got everything 14 that your contract more or less said you were going to 15 get in terms of those rebate moneys.</p> <p>16 Q. And were those types of system errors 17 undone by virtue of the 2001 agreement and the system 18 that was used for rebates under that agreement?</p> <p>19 A. In my opinion, yes, they probably were.</p> <p>20 Q. And that's because you're now working on a 21 guaranteed per-claim --</p> <p>22 A. Correct.</p>
<p>1 Q. Has Anthem ever -- 2 A. Wait a minute. I take that back. I think 3 maybe we did audit for this agreement. 4 Q. For the 1998 agreement? 5 A. I think we did. 6 Q. Do you remember when you did that audit? 7 A. I'd be guessing. I mean, it's -- 8 MR. NICHOLSON: Don't guess. 9 BY MR. CAVANAUGH: 10 Q. I don't want you to guess, but was it 11 during the period of time when this agreement was in 12 place? 13 A. Not when this agreement was in place, no. 14 Q. So, at some point subsequent -- the 1998 15 agreement ran from 1998 through 2001, when you did the 16 new agreement? 17 A. Uh-huh. 18 MR. NICHOLSON: You need to say "yes" so 19 she can pick that up. 20 THE WITNESS: Yes. 21 BY MR. CAVANAUGH: 22 Q. Was the audit of the 1998 agreement done</p>	<p>27</p> <p>1 Q. How does the per-claim work in conjunction 2 with a formulary? 3 A. Well, as I recall, without seeing the other 4 agreement -- although I'm sure you have it. 5 Q. Yeah, I can show it to you if it would help 6 to look at it. 7 MR. NICHOLSON: We can do that right now, 8 if you need to see it. 9 THE WITNESS: As I recall now, based on how 10 the subsequent agreement was worded, we had to agree in 11 large part to attempt to work with Medco to follow their 12 formulary recommendations but, it ultimately gave us the 13 final decision as to whether or not we were going to 14 accept a drug and add it to our formulary. We weren't 15 going to take something, necessarily, that -- here's the 16 thinking behind making that part of the agreement: 17 We weren't going to take something that 18 paid higher rebates just because it paid higher rebates, 19 when it could cost our customers more because it's a 20 more expensive drug. 21 MR. NICHOLSON: If we're going to go 22 through the terms of the contract it may make sense for</p>

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

9 (Pages 30 to 33)

<p>1 you to put it in front of him right now.</p> <p>2 MR. CAVANAUGH: Yeah, I should have it.</p> <p>3 (There was a pause in the proceedings.)</p> <p>4 MR. CAVANAUGH: Why don't we mark this as</p> <p>5 Exhibit Morris 003.</p> <p>6 We'll mark as Anthem VA Exhibit Morris 003 the</p> <p>7 Integrated Prescription Drug Program Master Agreement entered</p> <p>8 into as of January 1st, 2001.</p> <p>9 (The document was marked as Exhibit Morris 003.)</p> <p>10 MR. NOTARGIACOMO: Can I get the Bates</p> <p>11 numbers for that document?</p> <p>12 MR. CAVANAUGH: A-VA 09010091. And I</p> <p>13 should probably also put on the record for Anthem VA 002</p> <p>14 the Bates numbers are A-VA 09010055.</p> <p>15 BY MR. CAVANAUGH:</p> <p>16 Q. You've been referring in your testimony</p> <p>17 earlier today to a subsequent agreement to the 1998</p> <p>18 agreement. Is Anthem VA 003 that agreement?</p> <p>19 A. Yes, it is.</p> <p>20 Q. Why don't you take a moment to look at it</p> <p>21 to refresh yourself as to how the rebates worked and</p> <p>22 were different from how the rebates worked under the '98</p>	30	<p>1 defined, built, the retail network were typically paying</p> <p>2 for the 30-day supply. So mail service was roughly</p> <p>3 paying for the 90-day supply, so roughly three times the</p> <p>4 amount of drug and cost.</p> <p>5 Q. And what would the benefit be to Anthem or</p> <p>6 to Merck of having the per-claim rebate different for</p> <p>7 the retail pharmacy managed program versus the retail</p> <p>8 pharmacy non-managed program?</p> <p>9 A. The managed program really was using</p> <p>10 Medco's formulary and agreeing to use the formulary in a</p> <p>11 manner as specified in this contract, or, in other</p> <p>12 words, working with Medco to define our formulary but</p> <p>13 agreeing to work with them closely in doing so.</p> <p>14 Q. And when that was done a higher rebate</p> <p>15 would be paid to Anthem, correct?</p> <p>16 A. Correct.</p> <p>17 Q. If I can go back to the '98 agreement for a</p> <p>18 moment, there was a reference there to a -- in 6.4 to</p> <p>19 "trend incentives."</p> <p>20 Can you explain to me what trend incentives</p> <p>21 are? What's the concept?</p> <p>22 A. The concept was if we, working jointly,</p>	32
<p>1 agreement.</p> <p>2 (There was a pause in the proceedings.)</p> <p>3 THE WITNESS: Just the rebates</p> <p>4 specifically?</p> <p>5 BY MR. CAVANAUGH:</p> <p>6 Q. Yes.</p> <p>7 A. Okay.</p> <p>8 Q. Does looking at Anthem VA 003 confirm your</p> <p>9 recollection that the rebate is on a per-claim basis?</p> <p>10 A. Yes.</p> <p>11 Q. Where would that language appear?</p> <p>12 A. It begins on page 11, 6.3. And if you turn</p> <p>13 to page 12 those amounts, retail and mail managed,</p> <p>14 retail and mail non-managed, and the per-claim amounts</p> <p>15 are to the right of that.</p> <p>16 Q. Now, if I look here, the per-claim -- per</p> <p>17 paid claim -- is this the rebate amount, the \$1.87, the</p> <p>18 \$6.36, the \$1.25?</p> <p>19 A. Yes.</p> <p>20 Q. Why is the mail service rebate so much</p> <p>21 higher than the retail pharmacy?</p> <p>22 A. Well, I mean, by the way the program is</p>	31	<p>1 could manage the increase of our drug trend then we were</p> <p>2 willing to pay Medco some amount of money to do that.</p> <p>3 In other words, rather than them just paying for claims</p> <p>4 and collecting rebate moneys and doling those out as</p> <p>5 they saw fit, you know, if they helped us actually</p> <p>6 manage the trend, in other words, hold costs down for us</p> <p>7 and our customers -- that was the intent of this. I</p> <p>8 mean, I think it was so complex not many people could</p> <p>9 understand exactly how we were going to get there, and I</p> <p>10 don't think we even came close to the thresholds. I</p> <p>11 think Medco just kind of, you know, didn't know what to</p> <p>12 make of it.</p> <p>13 Q. Okay. Were there -- was the trend</p> <p>14 incentives concept continued in 2001?</p> <p>15 MR. NICHOLSON: In the contract?</p> <p>16 BY MR. CAVANAUGH:</p> <p>17 Q. In the contract.</p> <p>18 A. To the best of my recollection, no.</p> <p>19 Q. Sticking with the 1998 agreement, there are</p> <p>20 references there -- let me take it back. This is</p> <p>21 paragraph 6.2.</p> <p>22 A. Uh-huh.</p>	33

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

10 (Pages 34 to 37)

<p>1 Q. There's a reference there to "formulary" -- 2 MR. NICHOLSON: Wait a second. We may be 3 missing a page.</p> <p>4 THE WITNESS: Is there a 6.2?</p> <p>5 MR. CAVANAUGH: Yeah. You were looking at 6 it before. That's how we got to the 70/30.</p> <p>7 I'm sorry. Page 9.</p> <p>8 MR. NICHOLSON: It's out of order. Okay.</p> <p>9 BY MR. CAVANAUGH:</p> <p>10 Q. I referred you earlier in my questions to 11 the initial few sentences dealing with the defined term 12 "formulary rebates," but there's a sentence that follows 13 that states, "Medco also receives and retains additional 14 rebates and/or fees from certain manufacturers which may 15 take into account various factors including the 16 utilization of certain drugs within their expected 17 therapeutic categories for Medco's book of business in 18 aggregate as a result of various commitments, services 19 and programs, including but not limited to formularies."</p> <p>20 What understanding did you have of other 21 types of rebates and fees that Medco might be securing 22 from one or more manufacturers?</p>	<p>34</p> <p>1 A. No. 2 Q. Let me ask you to turn to page 23 of the 3 1998 agreement, Anthem VA Exhibit Morris 002. And this 4 is entitled "Schedule B, Programming Pricing Terms." 5 A. Uh-huh. 6 Q. To what extent were you involved in 7 creating these program pricing terms? 8 A. For this agreement, not at all. I was not 9 involved. 10 Q. So, this is something that would have 11 existed or was well into existence by the time you came 12 into the group? 13 A. Yes. 14 Q. As a result of coming into the group did 15 you become familiar with these various reimbursement 16 terms? 17 A. Yes. 18 Q. What are each of these groups that are 19 identified on page 23, the Coordinated Care Network II, 20 Coordinated Care Network III, Retail Maintenance 21 Network, Trigon HMO Network? Can you explain each of 22 those to me and how they differ?</p>
<p>35</p> <p>1 A. We had no direct knowledge of what, if any, 2 moneys they were collecting there.</p> <p>3 Q. Were you familiar with a concept known as 4 administrative fees?</p> <p>5 A. Internal to a PBM?</p> <p>6 Q. Yes.</p> <p>7 A. Sure.</p> <p>8 Q. And had you heard of the concept of PBMs 9 charging administrative fees to manufacturers?</p> <p>10 A. Sure.</p> <p>11 Q. Does -- let me ask you when you -- what was 12 your first involvement with PBM contracting such as the 13 '98 and 2001 contract we're talking about?</p> <p>14 MR. NICHOLSON: I'm sorry. Could you give 15 some definition to "involvement"?</p> <p>16 BY MR. CAVANAUGH:</p> <p>17 Q. Sure. Before you came into the unit in 18 1997 had you had any prior involvement with PBMs and the 19 PBM business in general?</p> <p>20 A. No.</p> <p>21 Q. Had you had any prior involvement with 22 pharmacy networks?</p>	<p>37</p> <p>1 A. They are all pharmacy networks, different 2 pharmacy networks. Medco owned the Coordinated Care 3 Networks II and III, and they used those nationally for 4 their entire book of business, is what I was told.</p> <p>5 Q. When you say they owned them, what do you 6 mean?</p> <p>7 A. They owned the contract with the pharmacy, 8 they negotiated the network, they maintained the 9 network. The terms specified for network participation 10 were, you know, created and maintained by Medco, not by 11 us.</p> <p>12 Q. They didn't own the pharmacy?</p> <p>13 A. No.</p> <p>14 Q. Okay. But they were the direct contracting 15 party with the pharmacy?</p> <p>16 A. Correct.</p> <p>17 Q. Okay. What about Retail -- 1.3, the Retail 18 Maintenance Network?</p> <p>19 A. Again, that's another pharmacy network. 20 Medco built that network at our request, and the intent 21 of that network was to allow retail pharmacies -- most 22 specifically in Virginia, but I'm sure if we had some</p>

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

11 (Pages 38 to 41)

<p>1 outside the state we would have taken those as well -- 2 but retail pharmacies in Virginia to dispense a 90-day 3 supply of drug similar to a mail service pharmacy. 4 And the HMO -- Trigon HMO Network was a 5 pharmacy network they built exclusively for us using 6 terms that we specified.</p> <p>7 Q. Now, each of these networks have what 8 appear to be different reimbursement terms. Would you 9 agree with that?</p> <p>10 A. Yes.</p> <p>11 Q. How are these different terms for each 12 network arrived at?</p> <p>13 MR. NICHOLSON: Again, you're asking him a 14 question about a contract he was not involved in 15 negotiating.</p> <p>16 BY MR. CAVANAUGH:</p> <p>17 Q. Well, let me ask it -- in 2001, for that 18 contract, was there also a Schedule B for program 19 pricing terms?</p> <p>20 A. I'm sure there's something in there about 21 network terms, yes.</p> <p>22 Q. And were there multiple networks again?</p>	<p>38</p> <p>1 network. Originally there was the CCN II, and then my 2 assumption was that Medco built a new network with 3 slightly different terms and called that CCN III, 4 primarily different lines of business and were 5 negotiated at different points in time. 6 And, theoretically, a pharmacy could 7 participate in one or more of these networks. They 8 could be a CCN II, a CCN III, an HMO network provider. 9 Q. And how they got reimbursed would depend 10 upon the individual customer's plan? 11 A. Benefits, right, and eligibility, what 12 group they were loaded with, and -- 13 Q. I see. Let me draw your attention -- and 14 you can -- we'll look at the 2001 agreement for a 15 moment. 16 Under the Trigon Retail Maintenance Network 17 do you see there's a reference to AWP minus 15 percent 18 with no dispensing fee, but then if you look at 19 Coordinated Care Network III, it's AWP minus 13 plus a 20 dispensing fee. 21 Why would you use a dispensing fee for 22 certain networks and not for others?</p>
<p>1 A. I'm not sure about that.</p> <p>2 MR. NICHOLSON: You have the contract 3 there, if you want to look at it.</p> <p>4 BY MR. CAVANAUGH:</p> <p>5 Q. Yeah, why don't we take a look at that. 6 (There was a pause in the proceedings.)</p> <p>7 THE WITNESS: Yes, there are, Schedule B, 8 page 30.</p> <p>9 BY MR. CAVANAUGH:</p> <p>10 Q. Okay. And, again, does it appear under the 11 2001 agreement that there are different reimbursement 12 terms?</p> <p>13 A. Yes.</p> <p>14 Q. What would -- how is it that each of these 15 networks had different reimbursement rates?</p> <p>16 A. Developed at different points in time for 17 different lines of business.</p> <p>18 Q. Can you give me an example?</p> <p>19 A. Prior to us -- prior to us developing an 20 HMO we had a broad network of pharmacies that covered 21 the State of Virginia as well as nationwide, and 22 those -- those lines of business for HMO used the CCN</p>	<p>39</p> <p>1 A. I have no real idea why it was set up this 2 way, to be different. I mean, I would -- again, I'm 3 assuming that you're trying to incent some behavior 4 either on the part of the participating provider and/or, 5 you know, the customer.</p> <p>6 Q. Would you agree with me that from a 7 pharmacist's standpoint they're going to look at the 8 total reimbursement they're going to get, whether it's 9 in the form of an AWP minus 13 plus a dispensing fee or 10 just an AWP minus 15 percent?</p> <p>11 A. They should look at the total amount, yes. 12 Whether they do or not I can't tell you. I'm always 13 surprised that most of these guys don't even know, you 14 know, what their network terms are. They sign these 15 agreements and don't look that closely at them, 16 apparently.</p> <p>17 Q. But you'd agree with me that a pharmacist 18 looking at what they're going to get paid for dispensing 19 a drug -- they're going to look at the total 20 reimbursement page, no matter whether it's driven by 21 just AWP minus a number or driven by AWP plus a 22 dispensing fee?</p>

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

12 (Pages 42 to 45)

<p>1 MR. NICHOLSON: I'll object. You're asking 2 him to speculate as to what a pharmacist would do.</p> <p>3 MR. CAVANAUGH: Well, based upon his 4 experience.</p> <p>5 THE WITNESS: If they want to make a profit 6 they should look at the total reimbursement of the whole 7 package, and it's not just brands or just generics, it's 8 the combination.</p> <p>9 BY MR. CAVANAUGH:</p> <p>10 Q. And, certainly, when Anthem is evaluating 11 reimbursement rates it will look at what the total cost 12 to it is going to be?</p> <p>13 A. Yes.</p> <p>14 Q. And it would include, certainly, a 15 dispensing fee as part of that?</p> <p>16 A. Yes.</p> <p>17 Q. Let's talk about how Anthem goes about 18 determining retail reimbursement rates.</p> <p>19 A. Okay.</p> <p>20 Q. Is that something your group is responsible 21 for?</p> <p>22 A. At least in terms of initiating it as a</p>	<p>42</p> <p>1 To what extent has Anthem looked at the 2 basis on which pharmacists actually seek reimbursement?</p> <p>3 A. I'm not sure I understand the question.</p> <p>4 I'm sorry.</p> <p>5 Q. Well, there's a reference to the pharmacy's 6 usual and customary prices submitted. How does Anthem 7 determine usual and customary price?</p> <p>8 A. For example, we may know that pharmacies 9 have what's called loss leaders. They may intentionally 10 price the product below their cost to get traffic in the 11 store. For example, oral contraceptives. I mean, a lot 12 of pharmacies are smart. They know if they can get a 13 young female of childbearing age chances are she's 14 married and with children, and so she's going to buy 15 other things while she's in the store, so they'll sell 16 their oral contraceptives \$2 less than what it actually 17 costs them.</p> <p>18 In those situations we want to allow our 19 customer to take advantage of that competitive situation 20 and get the drug at the lowest possible cost. In other 21 words, not have the calculation kick in with the AWP, 22 but if your birth control pills cost \$20 and you're</p>
<p>1 topic for discussion. I think it's a -- it really is a 2 collaborative kind of discussion here internally and 3 then with the PBM as well. The PBM's experience 4 probably is going to tell them -- you know, they know 5 what other kinds of networks they have and we don't, so 6 they might could tell us, based on the marketplace, 7 here's some things you might consider.</p> <p>8 Q. And how is it that -- strike that.</p> <p>9 How does Anthem go about calculating costs, 10 the reimbursement cost?</p> <p>11 A. You can take these formulas and simply 12 apply them to the prices of the products.</p> <p>13 Q. Okay. And when you do that do you include 14 the dispensing fee?</p> <p>15 A. Yes, you would.</p> <p>16 Q. Now, if we look at any one of these 17 formulas they tend to provide for reimbursement in an 18 amount equal to the lowest of, one, the pharmacist's 19 usual and customary prices submitted; two, taking Trigon 20 Retail-Maintenance Network, for example, AWP minus 15 21 percent with no dispensing fee, or the MAC where 22 applicable with no dispensing fee.</p>	<p>43</p> <p>1 selling them for \$15, that's the price the customer 2 pays, less any co-pays.</p> <p>3 Q. Now, how do you go about determining, for 4 example, using your example of oral contraceptives, that 5 they're selling them for \$2 less than it actually costs 6 them to acquire?</p> <p>7 A. Well, we wouldn't up front. I would assume 8 that it's built into Medco's system. They have a 9 pricing file that has AWP costs on it. They could 10 compute it instantaneously with a computer, and, so, 11 they know the price being submitted by the pharmacy at 12 the point of sale is actually higher than or less than 13 that AWP price, so their system, when it's adjudicating 14 the claim, would make that determination, and it would 15 automatically defer to the lower-of.</p> <p>16 Q. Okay. Are you familiar with a term known 17 as WAC?</p> <p>18 A. Yes.</p> <p>19 Q. What's your understanding of WAC?</p> <p>20 A. Wholesale acquisition cost is what it 21 stands for, and it's more or less, though not in 22 absolute terms, what most parties who are willing to</p>

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

13 (Pages 46 to 49)

<p>1 purchase drugs for retail or resale could acquire the 2 drugs from a wholesaler.</p> <p>3 Q. Okay. And is that -- is WAC typically a 4 published number?</p> <p>5 A. I think it is.</p> <p>6 Q. Do you have any understanding of the 7 relationship between AWP and WAC?</p> <p>8 A. A rough understanding of the relationship.</p> <p>9 Q. And what's that rough understanding?</p> <p>10 A. In aggregate, looking across the entire 11 market basket of drugs, you know, WAC is somewhere 12 between 20 and 25, 26 percent less than the AWP cost. 13 It's some amount less than average wholesale price.</p> <p>14 Q. Okay. And --</p> <p>15 A. It depends on the drug, the market area, 16 et cetera, et cetera.</p> <p>17 Q. Sure. When did you first become familiar 18 with these terms, WAC and AWP?</p> <p>19 A. Probably 25 years ago when I was working in 20 pharmacies. I mean, we would order from a wholesaler, 21 and they would have the wholesale acquisition cost 22 listed and you could decide whether you wanted to order</p>	<p>46</p> <p>1 Q. And, so, if a retailer was paying, 25 years 2 ago, WAC, a hospital would be paying substantially below 3 WAC?</p> <p>4 A. Again, depending on the product, depending 5 on the agreements the hospital may or may not have had 6 with a given manufacturer you could have gotten -- if it 7 was a Roche vaccine or something you could get it at a 8 discount if you bought in bulk, and that was a lot 9 different than acquiring it from the wholesaler, sure.</p> <p>10 Q. Okay. I'm talking now about what a 11 hospital would buy at compared to what a retailer would 12 buy at for the same product.</p> <p>13 If we go back 25 years ago to when you were 14 working in hospital and retail pharmacies, would I be 15 correct that you understood that retailers were paying 16 higher prices than hospitals for the same products?</p> <p>17 A. Again, it depends on the size of the 18 entity. I mean, there were still chains back then, so 19 chains could probably do better than -- chain retail 20 pharmacies could do better than a small local hospital. 21 A large hospital chain like HCA, though, could 22 definitely do better than the mom-and-pop pharmacy down</p>
<p>1 a bottle of 30 or a bottle of a thousand.</p> <p>2 Q. And were there such -- were there AWPs at 3 that point in time?</p> <p>4 A. As I recall, there were. I don't think 5 they were listed with the wholesaler, necessarily, but 6 things like Red Book, Blue Book have always been around.</p> <p>7 Q. And was there this published difference 8 between AWP and WAC?</p> <p>9 A. Again, I would assume that there was, based 10 on the knowledge that I could -- that I had access to 11 the WAC price and that the AWP price was published. If 12 someone was willing to take the time to figure it out 13 I'm sure you could tell what the differences were. I 14 never did, but...</p> <p>15 Q. This was 25 years ago. Where were you 16 working at the time?</p> <p>17 A. Primarily, hospital pharmacies; a little 18 bit of retail work.</p> <p>19 Q. Back then were you aware that hospitals, 20 for example, were able to get steep discounts from 21 manufacturers?</p> <p>22 A. Sure.</p>	<p>47</p> <p>1 on the corner.</p> <p>2 Q. So if a retailer was paying at WAC, quite 3 often a hospital would be paying at a discount off of 4 WAC?</p> <p>5 A. Right.</p> <p>6 MR. NICHOLSON: Just subject to the market 7 limitations he described in his previous answer.</p> <p>8 MR. NOTARGIACOMO: Can we take a short 9 break?</p> <p>10 MR. CAVANAUGH: Yeah, sure, Ed. (A recess was taken.)</p> <p>12 BY MR. CAVANAUGH:</p> <p>13 Q. Do you have any -- let me ask it 14 differently.</p> <p>15 Does Anthem -- or has Anthem over the years 16 you've been with the company ever bought drugs itself?</p> <p>17 A. Here in Virginia, no. Anthem owns its own 18 PBM which is located in Mason, Ohio. Now, they buy 19 drugs, but this health plan administered in Virginia, 20 no.</p> <p>21 Q. Has Anthem ever had a staff model HMO or 22 any type of institution that would directly acquire</p>

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

14 (Pages 50 to 53)

<p>1 drugs?</p> <p>2 A. No.</p> <p>3 MR. NICHOLSON: And just so you know, when</p> <p>4 he says "Anthem" we're talking about Anthem Virginia,</p> <p>5 and this is the Virginia entity, not Ohio or anybody</p> <p>6 else. They've already been deposed.</p> <p>7 BY MR. CAVANAUGH:</p> <p>8 Q. What interaction do you have with other</p> <p>9 Anthem companies?</p> <p>10 A. The non-Virginia --</p> <p>11 Q. Yes.</p> <p>12 MR. NICHOLSON: Right now he's asking those</p> <p>13 outside of the state.</p> <p>14 THE WITNESS: None, basically. I have no</p> <p>15 relation with any of them.</p> <p>16 BY MR. CAVANAUGH:</p> <p>17 Q. Would it be correct, then, that any Anthem</p> <p>18 company that has negotiated with Medco -- those</p> <p>19 agreements would be done on a company-by-company basis?</p> <p>20 A. If any company did; yes, they would be</p> <p>21 negotiated on a company-by-company basis.</p> <p>22 I mean, I assume all the health plans today</p>	<p>50</p> <p>52</p> <p>1 A. No.</p> <p>2 Q. How did you go about evaluating -- well,</p> <p>3 strike that.</p> <p>4 Were you part of the group that would have</p> <p>5 evaluated whether to move to the -- whether to move the</p> <p>6 pharmacy benefits services from Medco to the Anthem</p> <p>7 entity?</p> <p>8 A. Not directly involved.</p> <p>9 Q. Were you indirectly involved?</p> <p>10 A. Sporadically, yes.</p> <p>11 Q. What input did you provide?</p> <p>12 A. You're basically making the business case,</p> <p>13 you know, cost benefit analysis. I mean, what's it</p> <p>14 going to cost compared to what we have today or what we</p> <p>15 could get in the marketplace, where are we going to gain</p> <p>16 or potentially lose because it impacts our customers.</p> <p>17 And, so, doing various analyses of network costs, of the</p> <p>18 cost of other services.</p> <p>19 Q. And what was -- how did the network costs</p> <p>20 compare?</p> <p>21 A. Compared to the 2001 agreement, we actually</p> <p>22 decided to negotiate a network with a little bit higher</p>
<p>1 are covered up under Anthem's PBM.</p> <p>2 Q. Well, I'll get to that.</p> <p>3 Did there come a time when Anthem moved</p> <p>4 from contracting for PBM services with an outside</p> <p>5 company to contracting for PBM services with an</p> <p>6 Anthem-related company?</p> <p>7 A. Yes.</p> <p>8 Q. Okay. And when was that?</p> <p>9 A. Sometime during 2003 is when we began</p> <p>10 talking with APM, Anthem Prescription Management, about</p> <p>11 integrating up under their model and moving away from</p> <p>12 Medco.</p> <p>13 Q. And did Anthem Virginia do an analysis of</p> <p>14 the pros and cons of making that switch?</p> <p>15 A. Yes.</p> <p>16 Q. Did Anthem -- did the Anthem PBM -- well,</p> <p>17 strike that.</p> <p>18 Did Anthem Virginia do a request for</p> <p>19 proposal from multiple PBMs, including the Anthem</p> <p>20 entity?</p> <p>21 A. During 2003?</p> <p>22 Q. Yes.</p>	<p>51</p> <p>53</p> <p>1 discount off of AWP. We kept the mail service</p> <p>2 reimbursement the same.</p> <p>3 Q. Now, when you say you negotiated, who did</p> <p>4 you negotiate with?</p> <p>5 A. The Anthem Prescription Management folks,</p> <p>6 Anthem's internal PBM.</p> <p>7 Q. And how much better was the reimbursement</p> <p>8 versus the Medco agreement on the retail side?</p> <p>9 A. The discount was 16 percent off AWP instead</p> <p>10 of 15.</p> <p>11 Q. And what about the dispensing fee?</p> <p>12 A. Dispense fees remained the same on the</p> <p>13 brand. On the generic we increased it a dollar. We</p> <p>14 wanted to try and incent pharmacies to dispense generic</p> <p>15 drugs -- better value for our customers.</p> <p>16 Q. And do you still have under the APM</p> <p>17 agreement multiple networks, or is it just one network?</p> <p>18 A. It's a single network.</p> <p>19 Q. So, it's a single network with a single</p> <p>20 reimbursement formula -- well, one for branded, one for</p> <p>21 generic?</p> <p>22 A. It's fairly complicated because there's not</p>

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

15 (Pages 54 to 57)

1 one standard agreement. Based on what I've been told,
 2 there are market areas across the country where the rate
 3 is not 16 percent. So it does vary by market region,
 4 but it's based on what the market will bear. If there's
 5 a large chain in a given geographic region and you've
 6 got to have them in your network and they say, I'm not
 7 taking 16, then you negotiate with them and pay them
 8 something different, probably a little less steep of a
 9 discount, probably what they're willing to agree to, 13,
 10 14, 15 percent.

11 MR. NICHOLSON: Again, we have the
 12 contract. That may help to give to him to take a look
 13 at.

14 THE WITNESS: But for the vast majority of
 15 pharmacies in that network it's 16 percent off for
 16 brands with a \$1.50 dispense fee.

17 BY MR. CAVANAUGH:

18 Q. Now, would I be correct that the Anthem
 19 PBM -- strike that.

20 How does the rebate arrangement with the
 21 Anthem PBM differ from the rebate arrangement you had
 22 with Medco under the 2001 agreement?

54

1 There are pretty good margins in mail service claims, so
 2 rather than giving that to another company why not keep
 3 it internally. It will help us hold our costs down, and
 4 we can pass those savings on to our customers.

5 Q. In 2001, when you were -- strike that.

6 Am I correct that in 2000 for the new 2001
 7 contract Anthem put out an RFP to which multiple PBMs
 8 responded?

9 A. Yes, that's correct.

10 Q. Was it your sense that the different PBMs
 11 were competing for Anthem's business?

12 A. Yes.

13 Q. Did your negotiations with multiple PBMs go
 14 through a number of rounds of negotiations?

15 A. Yes.

16 Q. And during that was there a give and take
 17 on various terms within each of the proposals?

18 A. Yes.

19 Q. And when you ultimately decided to go with
 20 Medco was it because the entire package looked better
 21 than what the other companies had been proposing?

22 A. Yes.

56

1 A. Not seeing that agreement, it's my
 2 understanding --

3 MR. NICHOLSON: Well, don't speculate. If
 4 you know, you know. If you need to see the agreement,
 5 you can see the agreement.

6 THE WITNESS: I don't know. I mean, not
 7 for sure. I've not seen the agreement.

8 BY MR. CAVANAUGH:

9 Q. Okay. What was the -- as you understood
 10 it, what was the prime motivation, if there was one, to
 11 move from Medco to Anthem's PBM?

12 A. There's -- you know, the operating income
 13 you would derive from a mail service pharmacy business
 14 in addition to more control over your benefits, your
 15 formulary, your network, rather than dealing with an
 16 external company that's governed by a contract you're
 17 dealing with a sister company, and hopefully our goals
 18 and incentives are all aligned to do what's right for
 19 the customer.

20 But, I mean, PBMs exist to process claims.
 21 They don't make any money doing that. They collect
 22 rebates; and they typically fill mail service claims.

55

57

1 (There was a pause in the proceedings.)

2 BY MR. CAVANAUGH:

3 Q. I should ask since you mentioned you worked
 4 in retail and hospital pharmacy do you have a pharmacy
 5 degree?

6 A. Yes.

7 Q. And when did you begin working in
 8 pharmacies?

9 A. 1979.

10 Q. And did you work in pharmacies from '79
 11 until you joined Anthem in '87?

12 A. No. I went back to school and got an
 13 M.B.A. around the mid '80s.

14 Q. So, for roughly five years you were working
 15 as a pharmacist?

16 A. Yes.

17 Q. Where did you get your M.B.A. from?

18 A. A local college, Virginia Commonwealth
 19 University.

20 Q. Would I be correct that Anthem enters into
 21 contracts with customers such as employers and union
 22 benefit plans pursuant to which Anthem will provide

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

16 (Pages 58 to 61)

<p>1 managed care services?</p> <p>2 A. Yes, I think that's a correct assumption.</p> <p>3 Q. Does Anthem pay -- strike that.</p> <p>4 Has Anthem entered into agreements with its</p> <p>5 customers to provide rebates?</p> <p>6 MR. NICHOLSON: You're asking him about the</p> <p>7 terms of the group contract?</p> <p>8 MR. CAVANAUGH: Yeah.</p> <p>9 THE WITNESS: I know we do have some groups</p> <p>10 where it's actually a part of their contract and we</p> <p>11 actually pay them a hundred percent of earned rebates.</p> <p>12 I think most of the time, pursuant to the 2001</p> <p>13 agreement, we're giving them an administrative credit</p> <p>14 that's a function of that guaranteed rebate amount and</p> <p>15 we're giving that to them up front as a credit to their</p> <p>16 administrative cost of doing business with us.</p> <p>17 BY MR. CAVANAUGH:</p> <p>18 Q. Okay.</p> <p>19 A. But it's a way of passing that money on to</p> <p>20 the group on a realtime basis rather than, like rebates,</p> <p>21 waiting nine to twelve months to collect them and then</p> <p>22 trying to figure out how to attribute them back to the</p>	<p>58</p> <p>1 think that was a new development compared to the old</p> <p>2 agreement.</p> <p>3 (There was a pause in the proceedings.)</p> <p>4 BY MR. CAVANAUGH:</p> <p>5 Q. To what extent did -- strike that.</p> <p>6 When Anthem was paying rebates back to its</p> <p>7 customers, to what extent did Anthem disclose the</p> <p>8 details of its arrangement with Merck-Medco?</p> <p>9 A. I think the agreements themselves bar us</p> <p>10 from disclosing any of those terms, so we would not have</p> <p>11 disclosed such terms.</p> <p>12 Q. In the course of negotiations with Medco</p> <p>13 did Anthem ever seek to gain the right to make such</p> <p>14 disclosures to its customers?</p> <p>15 A. To the best of my knowledge, no. We did</p> <p>16 have -- I mean, I mentioned before we paid some</p> <p>17 customers a hundred percent of all collected rebates,</p> <p>18 and --</p> <p>19 Q. Would that be something that had been --</p> <p>20 that you would do with some customers and not do with</p> <p>21 others?</p> <p>22 A. It was negotiated on a customer-by-customer</p>
<p>59</p> <p>1 group and...</p> <p>2 Q. Was there a point in time when that's the</p> <p>3 procedure that Anthem was utilizing?</p> <p>4 A. You mean paying actual rebates collected?</p> <p>5 Q. Yes.</p> <p>6 A. Yes.</p> <p>7 Q. And is that something that changed under</p> <p>8 the '98 agreement with Medco?</p> <p>9 A. No.</p> <p>10 Q. When did that change?</p> <p>11 A. It changed with the 2001 agreement.</p> <p>12 Q. Okay. And in the 2001 agreement did</p> <p>13 Medco -- was one of the things you negotiated the</p> <p>14 elimination of an up-front administrative fee that Medco</p> <p>15 was charging Anthem?</p> <p>16 A. Say again?</p> <p>17 Q. As part of the 2001 agreement with Medco</p> <p>18 was one of the things that you negotiated the</p> <p>19 elimination of an up-front administrative fee?</p> <p>20 A. I -- it's my understanding we weren't</p> <p>21 paying an administrative fee before. I mean, I know we</p> <p>22 weren't paying one with the 2001 agreement, but I didn't</p>	<p>61</p> <p>1 basis, I think. It -- you know, we had to rely on the</p> <p>2 PBM to basically tell us, these are the rebate dollars</p> <p>3 for this group.</p> <p>4 Q. And when you say it was negotiated on a</p> <p>5 customer-by-customer basis, what would dictate whether a</p> <p>6 customer would end up getting all or some percentage of</p> <p>7 rebates?</p> <p>8 MR. NICHOLSON: Let me just note an</p> <p>9 objection that you're asking sales questions of a</p> <p>10 pharmacy employee, but to the extent you can answer it,</p> <p>11 please do.</p> <p>12 THE WITNESS: I'm not sure how rebates</p> <p>13 really were disseminated out to groups. It's my</p> <p>14 impression that anything that we could attribute back to</p> <p>15 a group's claims experience, we paid those moneys back</p> <p>16 to the groups. And I -- I mean, I think the</p> <p>17 differences, in my mind, for particularly an ASO</p> <p>18 account, we would pay a hundred percent of this</p> <p>19 negotiated 70 percent amount, but for some groups they</p> <p>20 actually wanted a hundred percent, so we had to make up</p> <p>21 that difference back to the groups for some of our large</p> <p>22 accounts, the 30 percent that Medco was withholding.</p>

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

17 (Pages 62 to 65)

<p>1 Q. Would that be one reason why you would try 2 to eliminate that in the 2001 agreement?</p> <p>3 A. And administratively they were problematic, 4 I mean, just to deal with, you know, collecting the 5 administrative things you needed to process rebates and 6 attribute them back to a group's experience. I mean, 7 administratively burdensome.</p> <p>8 Q. And, so, do you recall that back in, 9 roughly, the middle of 2001 Anthem went from using this 10 rebate methodology to using a prescription drug 11 administrative credit?</p> <p>12 A. Yes.</p> <p>13 Q. And from Anthem's perspective what was the 14 benefit of using that administrative credit as opposed 15 to using rebates?</p> <p>16 A. It was structured very similarly to the 17 rebate guarantees. In other words, it was an 18 administrative credit on a per-claim basis, or on some 19 lines of business I think it was a PMPM basis I think on 20 both it was either a PMPM or a per-contract by month, 21 but it was designed to where we could calculate it 22 easily because we had the group's eligibility, and, so,</p>	<p>62 1 that's correct.</p> <p>2 BY MR. CAVANAUGH:</p> <p>3 Q. And, to some extent, that would give Anthem 4 an advantage in negotiating with its customers, wouldn't 5 it?</p> <p>6 A. It could. I mean, we wanted to use it as a 7 competitive advantage to, again, provide the credit up 8 front. They see it realtime, provide a set amount, it's 9 budgetable, you're not waiting to see what your rebates 10 are going to be nine-months from now and hope they're 11 good so it offsets your claims expense. We structured 12 it, in my opinion, in a way that we were trying to use 13 it as a competitive advantage in the marketplace for our 14 customers.</p> <p>15 Q. Sure, but it gave Anthem the ability to 16 decide how much of the dollars it was getting back from 17 Medco it wanted to share with its customers.</p> <p>18 A. Yes.</p> <p>19 MR. CAVANAUGH: If you guys want to stretch 20 your legs, I'm going to look at my notes. I may be 21 close to being done.</p> <p>22 (There was a pause in the proceedings.)</p>
<p>1 it was something similar to a per-claim basis.</p> <p>2 Q. Would I be correct that a customer would 3 not know how much Anthem was getting from Medco in terms 4 of a guaranteed per-claim rebate?</p> <p>5 A. You would be correct.</p> <p>6 Q. Let's use an example. Let's say, for 7 example, you had your agreement with Medco -- I think we 8 looked at it -- had \$1.87 for a per-claim rebate to 9 Anthem.</p> <p>10 A. Uh-huh.</p> <p>11 Q. Under Anthem's administrative credit 12 arrangement with certain customers, let's assume they 13 gave back -- Anthem gave back a dollar.</p> <p>14 A. Okay.</p> <p>15 Q. Would I be correct that the customer 16 wouldn't know that there was 87 cents being retained by 17 Anthem?</p> <p>18 MR. NICHOLSON: I object to the form of the 19 question.</p> <p>20 THE WITNESS: I suppose that's correct. 21 They would not know, and we could not disclose those 22 terms, so there would be no way for them to know, yes,</p>	<p>63 1 BY MR. CAVANAUGH:</p> <p>2 Q. When did you first become familiar with 3 this concept of PBMs?</p> <p>4 MR. CAVANAUGH: Ed, we're back on.</p> <p>5 MR. NOTARGIACOMO: That was a quick five 6 minutes, but I'm here.</p> <p>7 MR. CAVANAUGH: Yeah, sorry.</p> <p>8 MR. NOTARGIACOMO: Go ahead.</p> <p>9 THE WITNESS: When did I first become aware 10 of a PBM and the concept of a PBM?</p> <p>11 BY MR. CAVANAUGH:</p> <p>12 Q. Yeah.</p> <p>13 A. I know I was aware of it prior to coming 14 into this job around '97, '98. I have to do continuing 15 education to stay abreast, and, so, it's --</p> <p>16 Q. Yeah. Did Anthem Virginia ever consider 17 contracting directly with manufacturers for rebates?</p> <p>18 MR. NICHOLSON: During his time in the 19 pharmacy area?</p> <p>20 MR. CAVANAUGH: Yeah.</p> <p>21 THE WITNESS: Yes.</p> <p>22 BY MR. CAVANAUGH:</p>

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

18 (Pages 66 to 69)

<p>1 Q. When did your group first consider that? 66</p> <p>2 A. At the same time we were developing the RFP</p> <p>3 that resulted in this 2001 contract.</p> <p>4 Q. Do you know if it was considered back in</p> <p>5 the '97-'98 time period when you did that initial</p> <p>6 agreement?</p> <p>7 A. That I don't know. I never heard anything</p> <p>8 about it, so...</p> <p>9 Q. Well, in 2000 when you were developing the</p> <p>10 RFPs how far did your evaluation get of contracting with</p> <p>11 manufacturers directly?</p> <p>12 A. We actually probably talked to 18 to 20</p> <p>13 manufacturers about, you know, what they were willing to</p> <p>14 offer, and we had a pharmacy consultant working with us.</p> <p>15 Q. Who was that?</p> <p>16 A. It was called The Pharmacy Group -- they're</p> <p>17 out of Connecticut -- a fellow named Michael Sachs and a</p> <p>18 fellow named Perry Cohen.</p> <p>19 Q. Do you know where they are in Connecticut?</p> <p>20 A. Glastonbury. I mean, it's The Pharmacy</p> <p>21 Group, and it's just those two guys that came out of</p> <p>22 California. They worked for HMOs out in California and</p>	<p>1 something different or -- it wasn't ingredient cost. I 68</p> <p>2 was mistaken about that. But it was something else. It</p> <p>3 was WAC.</p> <p>4 Q. How, in your own mind, do you differ WAC</p> <p>5 from ingredient cost?</p> <p>6 A. Ingredient cost is the network discounted</p> <p>7 amount. We said what WAC was earlier.</p> <p>8 So, whatever the network discount was...</p> <p>9 Q. And you're referring there to AWP minus 15</p> <p>10 plus a \$2.25 dispensing fee?</p> <p>11 A. Correct.</p> <p>12 Q. To what extent did Anthem analyze the cost</p> <p>13 to a pharmacist compared to the total reimbursement</p> <p>14 amount being given to a pharmacist in terms of for a</p> <p>15 particular product?</p> <p>16 A. Are you asking, you know, did we look to</p> <p>17 try and determine what their profit margins were based</p> <p>18 on our network reimbursement?</p> <p>19 Q. Yes.</p> <p>20 A. We did not ever do any type of analysis.</p> <p>21 Q. Why not?</p> <p>22 A. Probably because we didn't want to -- I</p>
<p>1 got a lot of experience. 67</p> <p>2 Q. How far did you get in your negotiations</p> <p>3 with manufacturers?</p> <p>4 A. It never really progressed past, you know,</p> <p>5 the discussion back and forth about each manufacturer's</p> <p>6 market basket of product and what they were willing to</p> <p>7 offer in terms of rebates for those products.</p> <p>8 Q. What type of -- so, did you get to the</p> <p>9 point where manufacturers actually said, we'd be willing</p> <p>10 to give you X amount of rebate?</p> <p>11 A. Yeah, for product ABC we'll give you 10</p> <p>12 percent of your billed amount or, you know, what you're</p> <p>13 actually paying for.</p> <p>14 Those contracts are not tied to AWP at all,</p> <p>15 they are -- you know, it's the discounted ingredient</p> <p>16 cost.</p> <p>17 Q. So, the rebate is based upon a discount off</p> <p>18 of -- would it be -- off of what?</p> <p>19 A. You know, now that I think about it --</p> <p>20 Q. Was it based on WAC?</p> <p>21 A. I think it was, for the most part. It</p> <p>22 seems like we had a couple of companies that were trying</p>	<p>1 mean, we had no access to -- ready access to wholesale 69</p> <p>2 acquisition costs or individual pharmacies' agreements</p> <p>3 with wholesalers or suppliers, and, so, it would have</p> <p>4 been impossible for us to really accurately have</p> <p>5 estimated what a pharmacy was paying for its product.</p> <p>6 You know, at the point you stop having</p> <p>7 pharmacies participate in your network you know you've</p> <p>8 gone too far, and we were nowhere close to that, in my</p> <p>9 opinion, so they were still making money at AWP minus 15</p> <p>10 or AWP minus 16.</p> <p>11 Q. So, would I be correct that the way that</p> <p>12 you determined what your reimbursement rates would be</p> <p>13 was not so much based upon what their actual acquisition</p> <p>14 costs were but based on how you saw pharmacists reacting</p> <p>15 to the reimbursement rates you put out there?</p> <p>16 A. What will the market bear, yes. I mean...</p> <p>17 It's all economics 101. At the point they</p> <p>18 stop or scream too loudly you know you've gone too far.</p> <p>19 They tie their reimbursement drugs to things other than</p> <p>20 cognitive services and counseling, and that's a whole</p> <p>21 separate topic, but...</p> <p>22 Q. And by doing that they've given you the</p>

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

19 (Pages 70 to 73)

<p>1 ability to ratchet down their margins?</p> <p>2 A. Correct. Well, we don't look at it like</p> <p>3 that. We're controlling our customers' costs.</p> <p>4 Q. It depends on what side of the table you're</p> <p>5 on?</p> <p>6 A. It does.</p> <p>7 Q. Let me go back to the manufacturers you</p> <p>8 were talking to. What services were you proposing to</p> <p>9 provide to the manufacturers in consideration for the</p> <p>10 rebates you were asking for?</p> <p>11 A. You have to send them your claims</p> <p>12 experience and, you know, they do their analysis and</p> <p>13 determine, you know, what their market share for their</p> <p>14 product is, and they define their market basket, if you</p> <p>15 will. You have to provide them that. You have to --</p> <p>16 their agreements basically offer incentives if you're</p> <p>17 willing to do things like restrict access to competing</p> <p>18 products.</p> <p>19 You know, if they're one of -- if they're</p> <p>20 the only choice within a category they'll pay higher</p> <p>21 moneys than if they're one of two or one of three.</p> <p>22 Q. So, essentially, what you were proposing is</p>	<p>70</p> <p>72</p> <p>1 that. Do you want to tighten up your formulary to the</p> <p>2 point where you're limiting your ability to sell a</p> <p>3 product in the marketplace? And most people like</p> <p>4 choice. They don't like you telling them, you can have</p> <p>5 this one lipid drug, or, you can have this one</p> <p>6 antidepressant. They like to not be restricted.</p> <p>7 Q. And would I also be correct that the</p> <p>8 greater effort you put into ensuring formulary</p> <p>9 compliance and providing the service that the</p> <p>10 manufacturer is looking for in exchange for the rebate</p> <p>11 it's going to cost Anthem more money to do that?</p> <p>12 A. Correct. And it costs us something in the</p> <p>13 marketplace as well, and you have to balance the costs</p> <p>14 against -- you know, it's a cost/benefit analysis,</p> <p>15 basically.</p> <p>16 You make your best choice that you have</p> <p>17 with the facts that you have available to you. And we</p> <p>18 didn't think our rebates would come close to what Medco</p> <p>19 could offer us initially. There was some period of time</p> <p>20 where you had to ramp up operations and begin to build</p> <p>21 the entire --</p> <p>22 Q. Infrastructure?</p>
<p>1 in lieu of a pharmacy benefit manager providing</p> <p>2 formulary, formulary-compliance, drug utilization</p> <p>3 information, Anthem would step into that role.</p> <p>4 A. Correct.</p> <p>5 Q. And would I be correct, then, that what you</p> <p>6 did in 2000 is you analyzed the pros and cons of that</p> <p>7 approach and then the pros and cons of going with any</p> <p>8 one of the PBMs with whom you were negotiating?</p> <p>9 A. Correct.</p> <p>10 Q. And the end result was you decided to go</p> <p>11 with Medco?</p> <p>12 A. Correct.</p> <p>13 Q. Was it your sense, based upon the rebates</p> <p>14 that you were getting, the rebate proposals you were</p> <p>15 getting from manufacturers, that Medco was able to get</p> <p>16 better deals than Anthem?</p> <p>17 A. If you viewed it in total, yes. I mean, we</p> <p>18 thought we could, with some level of effort, you know,</p> <p>19 increase our rebates. If that was what we were really</p> <p>20 interested in doing, we could increase them over what</p> <p>21 they were at that point in time. It really becomes an</p> <p>22 issue of, you know, whether you want to actually do</p>	<p>71</p> <p>73</p> <p>1 A. Right, that was the word I was trying to</p> <p>2 think of -- to begin collecting those rebates, but once</p> <p>3 you did, if you were willing to do certain things to</p> <p>4 drive utilization to the formulary products, you could</p> <p>5 do very well in terms of rebates.</p> <p>6 Ultimately, it was a strategy that we</p> <p>7 didn't think was worth pursuing, because typically you</p> <p>8 earn rebates on higher cost drugs, anyway. That's why</p> <p>9 manufacturers pay them; they want people to use them.</p> <p>10 And you're not -- you're not looking out for your</p> <p>11 customer long term. You're costing them more, really,</p> <p>12 even though you're earning higher rebates.</p> <p>13 Q. Based upon your participation in this</p> <p>14 exchange with manufacturers and your evaluation, did you</p> <p>15 conclude that ultimately you thought Anthem could have</p> <p>16 earned the same level of rebates as any other</p> <p>17 third-party PBM?</p> <p>18 A. Again, if you're willing to do what it took,</p> <p>19 to maximize those rebate moneys, yes, I think you could</p> <p>20 have -- I think we could have.</p> <p>21 Q. Is the Anthem PBM seeking to maximize its</p> <p>22 rebates?</p>

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

20 (Pages 74 to 77)

<p>1 A. Again --</p> <p>2 MR. NICHOLSON: Object to form.</p> <p>3 THE WITNESS: I don't think we as a company</p> <p>4 still believe that chasing rebates is the best thing at</p> <p>5 the end of the day for the customer. You're still</p> <p>6 paying for more expensive drugs, and it's my impression</p> <p>7 APM doesn't pursue that strategy, either.</p> <p>8 I mean, I think because, you know, it's a</p> <p>9 cooperative relationship between the two companies that</p> <p>10 are held under one parent that they listen to us a</p> <p>11 little closer, and, so, they're not adding drugs to the</p> <p>12 formulary just to chase rebates.</p> <p>13 BY MR. CAVANAUGH:</p> <p>14 Q. Does the per-claim -- well, strike that.</p> <p>15 Did the per-claim rebate that you were</p> <p>16 getting from Medco -- strike that.</p> <p>17 Would I be correct that the per-claim</p> <p>18 rebate that you negotiated from Medco in the 2000</p> <p>19 agreement would have -- drug costs would have no bearing</p> <p>20 on that?</p> <p>21 MR. NICHOLSON: You mean the 2001</p> <p>22 agreement?</p>	<p>74</p> <p>1 and there were a few other things that put the</p> <p>2 guarantees at risk, but nothing substantive that ever</p> <p>3 concerned us. I mean, we always kept an eye on those</p> <p>4 issues that could have affected those guarantee amounts,</p> <p>5 but they never came into play at all.</p> <p>6 Q. Is there a disincentive for a PBM to put a</p> <p>7 higher price product in its formulary?</p> <p>8 A. Is there a disincentive?</p> <p>9 (Pause.)</p> <p>10 MR. NICHOLSON: Object to form.</p> <p>11 THE WITNESS: All other things being equal,</p> <p>12 efficacy of the drug, safety of the drug, a more</p> <p>13 expensive product only increases the customer or whoever</p> <p>14 is paying for that claims cost. So whether it's us, if</p> <p>15 we're fully insuring a group, or whether it's a large</p> <p>16 ASO account, that customer is going to see their claims</p> <p>17 cost go up.</p> <p>18 BY MR. CAVANAUGH:</p> <p>19 Q. And, so, that creates a disincentive for</p> <p>20 the PBM when they're out there trying to compete for</p> <p>21 your business, doesn't it?</p> <p>22 A. Yes.</p>	<p>76</p>
<p>1 MR. CAVANAUGH: Yeah.</p> <p>2 THE WITNESS: I think you're correct in</p> <p>3 that statement. Drug costs would have no relationship</p> <p>4 to that per-claim rebate amount that they're paying us.</p> <p>5 I mean, they weren't tied to anything specifically other</p> <p>6 than our promise to work with you, Medco, to do what's</p> <p>7 right for both of us.</p> <p>8 And that's exactly what we did, we worked</p> <p>9 through issues that we had where they wanted us to add a</p> <p>10 drug to the formulary and we said, no, we're concerned</p> <p>11 about the cost of that drug or that particular category,</p> <p>12 and, so, we don't want to at this point in time, and</p> <p>13 then, you know, it was -- we never just told them no and</p> <p>14 then backed away from the table, it was always an</p> <p>15 ongoing discussion, and I think it worked fairly well.</p> <p>16 BY MR. CAVANAUGH:</p> <p>17 Q. I mean, at the end of the day Anthem had</p> <p>18 the ability not to put a drug on its formulary, correct?</p> <p>19 A. Correct. There were certain thresholds. I</p> <p>20 mean, if -- I think if a certain amount of our business</p> <p>21 migrated away from that \$15 differential on the --</p> <p>22 within the managed plans the guarantees were at risk,</p>	<p>75</p> <p>1 Q. Because if you look at a formulary that's</p> <p>2 stocked with high-priced drugs you're going to -- one of</p> <p>3 the things you would recognize when you're evaluating</p> <p>4 that formulary is that it's going to produce potentially</p> <p>5 higher costs for you.</p> <p>6 A. Correct, and our customers.</p> <p>7 Q. So, when you're negotiating with the PBM</p> <p>8 one of the things you're looking at -- in fact, at the</p> <p>9 end of the day what you're looking at is what's the</p> <p>10 total cost going to be of doing business with this</p> <p>11 particular PBM and the services and formularies it</p> <p>12 offers.</p> <p>13 A. Correct. I mean, that's correct, you look</p> <p>14 at the entire thing. There are some drugs where you</p> <p>15 know it's the most expensive in the class. You maybe</p> <p>16 don't like that drug, but based on the strength of the</p> <p>17 manufacturer you know you're not going to be able to</p> <p>18 take that drug off your formulary or dis incent your</p> <p>19 customers to stop using it, so you kind of weigh that</p> <p>20 and make a decision about the overall value of the</p> <p>21 complete package.</p> <p>22 There's some things where you give up a lot</p>	<p>77</p>

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

21 (Pages 78 to 79)

1 but you get something over here, so it kind of balances
 2 out.

3 Q. And that's from Anthem's perspective,
 4 correct?

5 A. Yes.

6 Q. And isn't the PBM doing the same thing in
 7 terms of balancing; maybe it will get some rebate
 8 dollars, but at the same time by putting high-priced
 9 drugs in its formulary it's creating a less attractive
 10 package for Anthem, correct?

11 A. Yes.

12 MR. CAVANAUGH: All right. I don't think I
 13 have any further questions.

14 Ed, do you have anything?

15 MR. NOTARGIACOMO: Nope, not for this
 16 witness.

17 MR. NICHOLSON: He'll read and sign as
 18 well.

19 (The witness did not waive signature.)

20 (The deposition concluded at 3:41 p.m.)

21

22

1 COMMONWEALTH OF VIRGINIA AT LARGE, to wit:
 2 I, Heidi L. Jeffreys, RDR, CRR, a Notary
 3 Public for the Commonwealth of Virginia at Large, of
 4 qualification in the Circuit Court of the City of
 5 Norfolk, Virginia, and whose commission expires June 30,
 6 2008, do hereby certify that the within deponent,
 7 D. B. MORRIS, appeared before me at Richmond, Virginia,
 8 as hereinbefore set forth, and, after being first duly
 9 sworn by me, was thereupon examined upon his oath by
 10 counsel; that his examination was recorded in Stenotype
 11 by me and reduced to typescript under my direction, and
 12 that the foregoing transcript constitutes a true,
 13 accurate, and complete transcript.

14 I further certify that I am not related to
 15 nor otherwise associated with any party or counsel to
 16 this proceeding, nor otherwise interested in the event
 17 thereof.

18 Given under my hand and notarial seal at
 19 Norfolk, Virginia, this _____ day of _____
 20 2005.

21
 22

Heidi L. Jeffreys, RDR, CRR
 Certification No. 0413283
 Notary Public

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Highly Confidential
Richmond, VA

January 5, 2005

1

A	14:22 45:20	63:11	26:22 27:3,4	although 29:4
ABC 67:11	46:21 69:2	administrati...	27:11,13,15	always 15:22
ability 64:15	69:13	62:3,7	27:16,22	25:11,21
70:1 72:2	across 46:10	adopt 25:19	28:1,17,18	41:12 47:6
75:18	54:2	advantage	29:4,10,16	75:14 76:3
able 11:8 26:6	ACTION 1:3	44:19 64:4,7,	30:7,17,18,18	am 7:15,21
47:20 71:15	actual 23:10	64:13	31:1 32:17	21:3 56:6
77:17	59:4 69:13	advice 13:8	33:19 36:3,8	79:11
about 5:11,17	actually 9:4	affected 76:4	39:11 40:14	amendment
5:17 12:21	14:1 19:15	after 28:1 79:5	52:21 53:8	21:6,9
14:5,8 17:5	19:22 20:2	again 6:3 7:19	53:17 54:1	Americas 2:12
22:13 35:13	23:21 26:12	20:21 24:4	54:22 55:1,4	among 21:13
37:17 38:14	33:5 44:2,16	25:8 26:1	55:5,7 58:13	23:15
38:20 39:1	45:5,12	37:19 38:13	59:8,11,12,17	amount 21:20
42:17,17	52:21 58:10	38:22 39:10	59:22 60:2	22:1 31:17
43:9 45:3	58:11 61:20	41:2 47:9	62:2 63:7	32:4 33:2
48:10 50:4	66:12 67:9	48:4,17	66:6 74:19	41:11 43:18
51:10 52:2	67:13 71:22	54:11 59:16	74:22	46:13 58:14
53:11 58:6	actuarial 11:12	64:7 73:18	agreements	61:19 64:8
66:8,13 67:5	11:13	74:1	8:13,17,19	67:10,12
67:19 68:2	add 25:4 29:14	against 72:14	9:15,18 16:4	68:7,14 75:4
75:11 77:20	75:9	age 44:13	16:7,9,13	75:20
abreast 65:15	adding 74:11	aggregate	26:19 41:15	amounts 28:8
absolute 24:2	addition 23:8	34:18 46:10	48:5 50:19	31:13,14
25:16,21	55:14	ago 5:17 14:11	58:4 60:9	76:4
45:22	additional	46:19 47:15	69:2 70:16	analyses 52:17
accept 29:14	34:13	48:2,13	ahead 65:8	analysis 51:13
access 16:12	addressed	agree 29:10	aligned 55:18	52:13 68:20
47:10 69:1,1	22:17	38:9 41:6,17	all 6:1 10:8	70:12 72:14
70:17	adequate	54:9	17:21 23:3	analyst 5:2,7,8
account 34:15	10:21	agreed 16:16	25:9 36:8	analyze 68:12
61:18 76:16	adjudicating	23:5	37:1 50:22	analyzed 71:6
accounting	45:13	agreeing 32:10	55:18 60:17	analyzing 5:4
28:13	adjusted 21:7	32:13	61:6 67:14	and/or 34:14
accounts 61:22	21:8	agreement	69:17 76:5	41:4
accurate 79:10	administer	3:13,16 8:22	76:11 78:12	another 23:19
accurately	28:12	11:22 18:17	allow 37:21	37:19 56:2
69:4	administered	18:20,22	44:18	answer 12:1
acquire 45:6	49:19	19:4,8,9,21	already 19:9	15:12 24:19
46:1 49:22	administrative	20:6,22 21:1	22:17 50:6	25:2 49:7
acquired 14:17	35:4,9 58:13	21:7,9,12,16	also 9:15,17	61:10
23:20	58:16 59:14	22:6 23:22	12:17 24:1	Anthem 1:20
acquiring 48:9	59:19,21	24:7,11,20	30:13 34:13	2:16 4:12,16
acquisition	62:5,11,14,18	25:18 26:3	38:18 72:7	4:17 6:10,12

David B. Morris

Highly Confidential

January 5, 2005

Richmond, VA

2

7:16,21 8:3,6 8:12 11:21 12:18 13:9 13:16,18 16:12,15 18:15 21:2 21:16 22:12 22:15 24:21 26:12,18,21 27:1 30:6,13 30:18 31:8 32:5,15 36:3 42:10,17 43:9 44:1,6 49:15,15,17 49:21 50:4,4 50:9,17 51:3 51:10,13,16 51:16,18,19 52:6 53:5 54:18,21 56:7 57:11 57:20,22 58:3,4 59:3 59:15 60:6,7 60:13 62:9 63:3,9,13,17 64:3,15 65:16 68:12 71:3,16 72:11 73:15 73:21 75:17 78:10 Anthem's 22:21 51:1 53:6 55:11 56:11 62:13 63:11 78:3 Anthem-rela... 51:6 antidepressant 72:6 any 12:4,5,18 13:12,21	16:15 19:14 35:1,18,21 43:16 45:2 46:6 49:13 49:22 50:15 50:17,20 55:21 60:10 68:20 71:7 73:16 78:13 79:12 anybody 50:5 anything 61:14 66:7 75:5 78:14 anyway 73:8 APM 51:10 53:16 74:7 apparently 41:16 appeals 6:4 appear 31:11 38:8 39:10 Appearances 2:1 appeared 79:5 applicable 43:22 apply 43:12 approach 71:7 approximately 5:3 area 7:7 46:15 65:19 areas 54:2 around 12:4 47:6 57:13 65:14 arrangement 15:6 22:22 54:20,21 60:8 63:12 arrived 20:18 38:12 ask 7:20 10:9	11:4 12:22 20:5 35:11 36:2 38:17 49:13 57:3 asked 17:7 asking 38:13 42:1 50:12 58:6 61:9 68:16 70:10 ASO 61:17 76:16 assessment 28:10 associated 79:12 assume 14:4 15:11,13 45:7 47:9 50:22 63:12 assuming 41:3 assumption 15:8,21 20:20,21 40:2 58:2 attached 20:3 attempt 29:11 attention 40:13 attractive 78:9 attribute 58:22 61:14 62:6 audit 26:19,21 27:3,6,22 28:3 authorization 5:15 6:4 automatically 45:15 available 72:17 Avenue 2:12 average 1:8 46:13 arrived 20:18 38:12 20:22 21:3 47:19 65:9	65:13 away 51:11 75:14,21 AWP 18:2 40:17,19 41:9,10,21,21 43:20 44:21 45:9,13 46:7 46:12,18 47:8,11 53:1 53:9 67:14 68:9 69:9,10 AWPs 47:2 Axelrod 7:14 A-VA 30:12,14	77:16 basically 9:6 50:14 52:12 61:2 70:16 72:15 basis 15:20 21:21 22:5 23:3 26:4 31:9 44:2 50:19,21 58:20 61:1,5 62:18,19 63:1 basket 46:11 67:6 70:14 Bates 30:10,14 be 9:22 11:8,14 11:19,20 12:6 13:16 15:18 20:20 23:7 26:6,11 B B 1:16 2:17 3:5 4:1,7 36:4 38:18 39:7 79:5 back 4:20 8:7,7 22:4 27:2 32:17 33:20 47:19 48:13 48:18 57:12 58:22 60:6 61:14,15,21 62:6,8 63:13 63:13 64:16 65:4 66:4 67:5 70:7 backed 75:14 balance 72:13 balances 78:1 balancing 78:7 bar 60:9 based 20:12 29:9 42:3 43:6 47:9 54:1,4 67:17 67:20 68:17 69:13,14 71:13 73:13
---	--	---	---	--

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

3

28:20 29:18	benefits 6:1,15	54:16	64:15 65:6	case 4:13 52:12
29:19 52:16	24:19 25:3	break 49:9	68:2 69:14	cases 23:9
53:22 56:20	40:11 52:6	brief 4:22	69:21 73:2	categories
62:22 68:22	55:14	broad 39:20	76:2,5 77:16	34:17
73:7 74:8	Berman 2:4	budgetable	78:1,8	category 70:20
77:1	best 16:3 33:18	64:9	buy 44:14	75:11
become 36:15	60:15 72:16	build 72:20	48:11,12	caution 15:22
.46:17 65:2,9	74:4	built 14:15	49:18	Cavanaugh
becomes 71:21	better 48:19,20	32:1 37:20		2:10 3:5 4:5
been 4:2,18 6:7	48:22 53:7	38:5 40:2		4:10,14 8:6
8:15 9:17	53:15 56:20	45:8		8:10,20
12:2,20	71:16	bulk 48:8		10:15 13:6
13:16 15:1	between 14:8	burdensome		13:14 15:16
19:11 28:6,7	15:7 16:16	62:7		16:3,6 18:10
30:16 47:6	18:22 25:14	business 11:1		18:14 20:4
49:16 50:6	26:11 46:7	14:12 15:19		22:19 24:15
54:1 56:21	46:12 47:8	19:14 20:19		25:17 27:9
60:19 69:4	74:9	34:17 35:19		27:21 30:2,4
before 1:17 8:4	beyond 15:21	37:4 39:17		30:12,15
14:21 34:6	bid 9:4 23:14	39:22 40:4		31:5 33:16
35:17 59:21	Bill 4:9	52:12 55:13		34:5,9 35:16
60:16 79:5	billed 17:10	56:11 58:16		38:16 39:4,9
began 51:9	67:12	62:19 75:20		42:3,9 49:10
begin 57:7	birth 44:22	76:21 77:10		49:12 50:7
72:20 73:2	bit 47:18 52:22	but 6:19 11:12		50:16 54:17
begins 31:12	black 15:22	12:4 13:3,8		55:8 57:2
behalf 1:16 2:2	Blue 4:16,16	14:15 15:11		58:8,17 60:4
2:9,16 3:4	47:6	15:22 17:8		64:2,19 65:1
behavior 41:3	board 10:16	17:13 20:17		65:4,7,11,20
behind 29:16	body 24:17	20:21 22:1		65:22 74:13
being 4:11	book 34:17	24:2 25:4,15		75:1,16
15:19 23:12	37:4 47:6,6	25:18,20		76:18 78:12
45:11 63:16	boss 12:8,10	27:10 28:7		CCN 39:22
64:21 68:14	both 7:9 28:5,8	28:13 29:12		40:1,3,8,8
76:11 79:5	62:20 75:7	32:12 34:12		cents 63:16
believe 14:18	bottle 47:1,1	34:19 37:14		certain 20:8
22:18 74:4	bought 15:4	37:22 38:2		26:13 34:14
Belknap 2:11	48:8 49:16	40:18 41:17		34:16 40:22
below 44:10	brand 25:13	44:22 47:5		63:12 73:3
48:2	25:14 53:13	47:14 49:19		75:19,20
benefit 6:5	branded 20:9	54:4,14		certainly 9:19
19:15 32:5	25:6 26:2	55:20 58:19		15:12 25:14
52:13 57:22	53:20	59:22 61:10		42:10,14
62:14 71:1	brands 42:7	61:19 62:21		certainty 24:2

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

4

Certification	close 33:10	50:20 51:5,6	29:1	17:17 23:3
79:21	64:21 69:8	55:16,17	Connecticut	25:9 57:21
certify 79:4,11	72:18	56:2 74:3	66:17,19	67:14
cetera 11:9	closely 32:13	company-by...	cons 51:14	control 44:22
46:16,16	41:15	50:19,21	71:6,7	55:14
chain 16:19	closer 74:11	compare 52:20	consensus 11:7	controlling
48:19,21	cognitive 69:20	compared	consider 43:7	70:3
54:5	Cohen 66:18	48:11 52:14	65:16 66:1	convention
chains 16:10	collaborative	52:21 60:1	consideration	14:15
48:18,19	11:5 43:2	68:13	70:9	cooperative
chances 44:13	collect 55:21	compete 76:20	considered	74:9
change 59:10	58:21	competing	66:4	coordinate 6:1
changed 6:17	collected 59:4	56:11 70:17	consisted	Coordinated
59:7,11	60:17	competitive	25:16	36:19,20
changes 14:5	collecting 33:4	23:14 44:19	constitutes	37:2 40:19
charging 35:9	35:2 62:4	64:7,13	79:9	corner 49:1
59:15	73:2	complete 77:21	consultant	corporate
chase 74:12	college 57:18	79:10	12:18 66:14	10:18 11:10
chasing 74:4	Colley 19:16	complex 33:8	consultation	11:16 12:9
check 17:9	combination	compliance	13:8	correct 7:15,21
checks 17:13	42:8	71:2 72:9	context 15:17	8:1 9:13 14:3
chief 6:20 7:3	come 19:6	complicated	continued	14:4 19:1,2
7:11	20:17 51:3	53:22	33:14	28:22 32:15
childbearing	72:18	component	continuing	32:16 37:16
44:13	coming 11:6	13:20	65:14	48:15 50:17
children 44:14	24:4 36:14	components	contraceptives	54:18 56:6,9
choice 70:20	65:13	9:18	44:11,16	57:20 58:2
72:4,16	commencing	compute 45:10	45:4	63:2,5,15,20
chose 26:17	1:18	computer	contract 9:6	64:1 68:11
Circuit 79:3	commission	45:10	10:2 17:22	69:11 70:2
City 79:3	79:3	concept 32:21	28:14 29:22	71:4,5,9,12
CIVIL 1:3	commitments	32:22 33:14	32:11 33:15	72:7,12
claim 31:17	34:18	35:3,8 65:3	33:17 35:13	74:17 75:2
45:14	Commonwe...	65:10	37:7 38:14	75:18,19
claims 25:7	1:18 57:18	concerned	38:18 39:2	77:6,13,13
26:2,7,15	79:1,2	75:10 76:3	54:12 55:16	78:4,10
33:3 55:20	companies	conclude 73:15	56:7 58:7,10	correctly 19:17
55:22 56:1	50:9 56:21	concluded	66:3	cost 29:19 32:4
61:15 64:11	67:22 74:9	78:20	contracting	42:11 43:10
70:11 76:14	company 4:18	conducting 5:5	13:18 35:12	44:10,20,22
76:16	4:21 12:12	confidential	37:14 51:4,5	45:20 46:12
class 77:15	12:15 13:19	1:11 4:12	65:17 66:10	46:21 52:13
clinical 5:13	14:14 15:9	confirm 31:8	contracts 7:16	52:14,18
19:13	49:16 50:18	conjunction	7:22 13:15	58:16 67:16

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

5

68:1,5,6,12	creating 36:7	79:16	deposed 50:6	59:10,12
72:11 73:8	78:9	deal 62:4	deposition 1:15 4:11,11	60:5,7,13,15
75:11 76:14	credit 58:13,15	dealing 9:16	10:2 34:11	65:2,9,16
76:17,77:10	62:11,14,18	55:15,17	8:3 78:20	66:1,5,10
costing 73:11	63:11 64:7	Cross 4:16	derive 55:13	67:2,8 68:12
costs 33:6 43:9	CRR 1:17 79:1	dealings 13:21	described 22:9	68:16,20
44:17 45:5,9	79:20	deals 71:16	49:7	71:6 73:3,14
52:17,19	current 5:12	dealt 21:13	Description 3:10	74:15 75:8
56:3 69:2,14	currently 12:13	December 4:19	designated 4:11	78:19
70:3 72:12	customary 43:19 44:6,7	decide 46:22	designed 62:21	didn't 11:3
72:13 74:19	customer 6:2	decided 26:13	detail 12:5	12:4 22:13
75:3 77:5	41:5 44:19	52:22 56:19	details 60:8	25:11 33:11
cost/benefit 72:14	45:1 55:19	71:10	determination 45:14	37:12 59:22
could 4:20	61:6 63:2,15	decision 29:13	determine 44:7	68:22 72:18
12:20 22:20	73:11 74:5	77:20	68:17 70:13	73:7
24:9 26:11	76:13,16	Deeper 9:10,11	determined 69:12	differ 36:22
26:16 29:19	customers 6:1	Defendants 1:16 2:9 3:4	determining 42:18 45:3	54:21 68:4
33:1,8 35:14	11:9 22:4	defer 45:15	Developed 39:16	differed 24:11
40:6,8 43:6	29:19 33:7	define 32:12	developing 39:19 66:2,9	24:22
45:9 46:1,22	52:16 53:15	defined 32:1	development 60:1	difference 25:14 47:7
47:10,13	56:4 57:21	34:11	6:1 17:14 23:16	61:21
48:6,7,19,20	58:5 60:7,14	definitely 48:22	dictate 30:22 32:6	differences 26:11 47:13
48:21 52:15	60:17,20	definition 35:15	did 37:1 38:8,11	61:17
61:14 62:21	63:12 64:4	degree 57:5	department 11:8,18	different 9:7
63:21 64:6	64:14,17	delayed 23:8	12:17 13:21	10:9,12
71:18,20	70:3 77:6,19	department 5:13,17,19,20	14:1 20:17	17:14 23:16
72:19 73:4	customer's 40:10	6:7,13,19 7:5	21:16 25:20	30:22 32:6
73:15,19,20	customer-by... 60:22 61:5	7:7 8:22	26:18,20,21	39:11,15,16
76:4	cut 17:13	19:10,12	27:3,5,6,15	39:17 40:3,4
counsel 2:22	D	department's 34:20 36:14	40:5 41:2	40:5 41:2
79:7,12	D 3:1,5 79:5	6:14	48:9 54:8	48:9 54:8
counseling 69:20	date 18:17	depend 40:9	56:10 68:1	56:10 68:1
count 26:6	dated 3:13,16	depending 48:4,4	differential 75:21	differential 75:21
country 54:2	20:3	depends 15:17	49:14	49:14
couple 67:22	David 1:16 4:1	46:15 48:17	direct 35:1	direct 35:1
course 60:12	4:7	70:4	37:14	37:14
Court 1:1 79:3	day 1:19 74:5	deponent 79:4	direction 28:8	direction 28:8
covered 39:20	75:17 77:9		79:8	79:8
51:1			directly 9:20	directly 9:20
co-pays 45:2				
created 37:10				
creates 76:19				

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

6

9:21 19:13	disrupt 10:22	25:15 26:4	E	61:6 71:10
49:22 52:8	disseminated	26:16 27:8	E 3:1	74:5 75:17
65:17 66:11	61:13	27:10 30:4	each 20:12	77:9
director 6:20	disseminating	30:20 33:10	36:18,21	ensure 10:21
19:16	11:1	39:5 41:13	38:7,11	ensuring 72:8
disclose 60:7	distinguished	41:15 43:5	39:14 56:17	enter 16:9
63:21	25:2	47:4 55:3,6	67:5	entered 18:17
disclosed 60:11	DISTRICT 1:1	55:21 66:7	21:12 30:7	21:12 30:7
disclosing	1:2	70:2 72:4	58:4	enters 57:20
60:10	division 5:22	74:3 75:12	entire 5:18	24:5 37:4
disclosures	document	77:16 78:12	46:10 56:20	46:10 56:20
60:14	12:22 18:12	down 33:6	72:21 77:14	72:21 77:14
discount 11:4	18:15 30:9	48:22 56:3	entities 13:17	entities 13:17
17:8 48:8	30:11	70:1	14:8	14:8
49:3 53:1,9	does 7:10	draw 40:13	entitled 18:16	26:15 73:12
54:9 67:17	13:21 16:8	drive 73:4	36:4	36:4
68:8	16:12,15	driven 41:20	entity 8:3 14:9	44:17 48:18
discounted	29:1 31:8	41:21	14:21 48:18	50:5 51:20
67:15 68:6	35:11 39:10	driving 12:6	52:7	52:7
discounts 9:10	43:9 44:6	drug 3:12,15	equal 43:18	equal 43:18
9:11 47:20	49:15 54:3	18:16 20:8	76:11	76:11
discuss 10:1	54:20 58:3	29:14,20	errors 28:5,16	errors 28:5,16
discussing	70:6 74:14	30:7 32:4	ESQUIRE 2:3	2:10,17
9:20 19:11	doesn't 15:11	33:1 38:3	essentially	70:22
discussion	74:7 76:21	41:19 44:20	establishes	18:6
11:6 12:3	doing 5:8,9,14	46:15 62:10	establishment	18:6
15:15 43:1,2	32:13 52:17	71:2 72:5	7:17	7:17
67:5 75:15	55:21 58:16	74:19 75:3	estimated 69:5	estimated 69:5
discussions	69:22 71:20	75:10,11,18	et 11:9 46:16	et 11:9 46:16
12:6	77:10 78:6	76:12,12	46:16	46:16
disincent 77:18	 doling 33:4	77:16,18	evaluated 52:5	evaluated 52:5
disincentive	dollar 53:13	drugs 20:13	evaluating	11:15,19
76:6,8,19	63:13	34:16 46:1,2	42:10 52:2	42:10 52:2
dispense 38:2	dollars 61:2	46:11 49:16	77:3	77:3
53:12,14	64:16 78:8	49:19 50:1	evaluation	66:10 73:14
54:16	done 27:22	53:15 69:19	even 33:10	even 33:10
dispensing	32:14 50:19	73:8 74:6,11		
11:5 18:3	64:21	77:2,14 78:9		
20:12 40:18	don't 11:12	duly 4:2 79:5		
40:20,21	12:1 13:4	during 8:5 9:3		
41:9,18,22	14:10 15:11	27:11 51:9		
42:15 43:14	17:6,12	51:21 56:16		
43:21,22	18:10 22:1	65:18		
53:11 68:10	23:21 24:2			

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

7

41:13 73:12	76:13 77:15	35:4,9 53:12	25:7,10,10,12	function 58:14
event 79:13	experience	fellow 66:17,18	25:15 26:2,5	further 78:13
eventually	42:4 43:3	female 44:13	26:12,12	79:11
14:19 23:20	61:15 62:6	few 34:11 76:1	29:2,12,14	G
ever 26:21	67:1 70:12	figure 26:5	32:10,10,12	gain 52:15
27:1 49:16	expires 79:3	47:12 58:22	34:1,12	60:13
49:21 60:13	explain 11:8	file 45:9	55:15 71:2,2	gave 29:12
65:16 68:20	22:12,20	fill 55:22	72:1,8 73:4	63:13,13
76:2	32:20 36:21	final 29:13	74:12 75:10	64:15
everything	explained 25:3	finance 10:18	75:18 76:7	general 35:19
28:13	Express 23:19	11:10,16	77:1,4,18	generic 25:15
evolution	extensive	12:9	78:9	53:13,14,21
13:17	19:11	first 4:2 7:18	formulas 43:11	generics 42:7
exactly 33:9	extent 8:15	19:13 35:12	43:17	geographic
75:8	9:17 36:6	46:17 65:2,9	forth 67:5 79:5	54:5
examination	44:1 60:5,7	66:1 79:5	forward 10:17	get 11:18,21
1:15 3:4 4:4	61:10 64:3	fit 33:5	16:1 23:6	26:8 28:15
79:7	68:12	five 5:3 57:14	four 5:17	30:10 33:9
examined 4:2	external 6:2	65:5	Fourth 2:5	41:8,18
79:6	55:16	Floor 2:5	frame 10:14	44:10,12,20
example 11:19	eye 76:3	focus 5:5 22:14	from 6:19	47:20 48:7
18:1 39:18		folks 11:18	11:15 20:8	51:2 52:15
43:20 44:8	F	15:15 53:5	23:10 24:1	57:17 66:10
44:11 45:4,4	F2:10	follow 25:11	24:18,21	67:2,8 71:15
47:20 63:6,7	fact 15:20 77:8	29:11	25:3,10	78:1,7
exchange	factors 34:15	following	27:15 28:12	getting 11:13
72:10 73:14	facts 72:17	17:20	30:22 34:14	61:6 63:3
exclusively	fairly 53:22	follows 4:3	34:22 41:6	64:16 71:14
38:5	75:15	34:12	46:2,20	71:15 74:16
Exhibit 3:12	familiar 18:20	foregoing 79:9	47:20 48:9	give 4:20 10:14
3:15 18:11	35:3 36:15	form 13:2 41:9	51:4,11,19	22:4 35:14
18:12 30:5,6	45:16 46:17	63:18 74:2	52:6 54:21	39:18 54:12
30:9 36:3	65:2	76:10	55:11,13	56:16 64:3
EXHIBITS	far 66:10 67:2	former 12:8,10	57:10,17	67:10,11
3:8	69:8,18	formula 17:16	60:10 62:9	77:22
exist 55:20	fee 11:5 18:3	18:7 21:8	62:13 63:3	given 48:6 54:5
existed 36:11	40:18,20,21	53:20	64:10,16	68:14 69:22
existence 36:11	41:9,22	formularies	68:5 71:15	79:15
existing 8:21	42:15 43:14	25:19 34:19	74:16,18	giving 56:2
expand 22:16	43:21,22	77:11	75:14,21	58:13,15
expected 34:16	53:11 54:16	formulary	78:3	Glastonbury
expense 64:11	59:14,19,21	5:15 20:6,8	front 30:1 45:7	66:20
expensive	68:10	20:10,11,13	58:15 64:8	go 10:3 11:7
29:20 74:6	fees 34:14,21	24:7,17,18	fully 76:15	

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

8

21:2 26:19	59:1 61:3	72:20 75:9	69:6	him 22:16 30:1
29:21 32:17	66:1,16,21	75:17	HCA 48:21	38:13 42:2
43:9 45:3	76:15	Hagens 2:4	he 7:11 12:13	54:12 58:6
48:13 52:2	groups 5:5	hand 11:6	12:15 15:10	his 19:18 25:2
56:13,19	10:9,12	79:15	38:14 49:7	42:3 49:7
65:8 70:7	11:11 36:18	has 7:16,21	50:4	65:18 79:6,7
71:10 76:17	58:9 61:13	16:16,17	heading 24:17	HMO 36:21
goals 55:17	61:16,19,21	27:1 44:1	health 5:6,9,22	38:4,4 39:20
goes 20:13	group's 61:15	45:9 49:15	6:20 7:3,11	39:22 40:8
42:17	62:6,22	49:21 50:18	9:5 14:19	49:21
going 10:22	guarantee 22:2	58:4	49:19 50:22	HMOs 66:22
15:22 23:6,7	25:8 76:4	have 4:8 6:6,7	heard 7:8 12:3	hold 33:6 56:3
28:14 29:13	guaranteed	6:16,17,19	35:8 66:7	holds 25:9
29:15,17,21	21:20 22:14	8:15 9:17	Heidi 1:17	hope 64:10
33:9 41:7,8	24:7,16,18,20	10:8 12:2,3	79:1,20	hopefully
41:18,19	28:21 58:14	12:20 13:4	held 4:21 6:6	55:17
42:12 43:4	63:4	13:16,21	23:3 74:10	hospital 47:17
44:14 52:14	guaranteeing	15:1 16:12	help 29:5	48:2,5,11,14
52:15 64:10	26:1	16:15 17:11	54:12 56:3	48:20,21
64:20 71:7	guarantees	17:15 26:4	helped 33:5	49:3 57:4
72:11 76:16	62:17 75:22	26:10,18	here 28:4	hospitals 47:19
77:2,4,10,17	76:2	28:6,7 29:4	31:16 43:2	48:16
going-forward	guess 23:2 27:8	30:2 34:20	49:17 65:6	how 11:2,21
23:3	27:10	36:10 38:1,7	78:1	17:3 20:17
gone 69:8,18	guessing 27:7	39:2 41:1	hereby 79:4	24:10,21
good 56:1	guys 41:13	43:5 44:9,21	hereinbefore	28:11 29:1,9
64:11	64:19 66:21	45:8 46:6,21	79:5	30:21,22
got 11:7 17:10	H	47:6 48:5,6	here's 29:15	33:9 34:6
22:13 23:20	had 7:16,22	49:13 50:8	43:7	36:22 38:11
28:11,13	8:4 10:11	50:14 52:4	He'll 78:17	39:14 40:9
34:6 40:9	16:8 19:6,11	52:14 53:16	he's 7:6 12:11	42:17 43:8,9
54:6 57:12	23:4,5,6 26:8	54:6,11 57:4	22:17 50:12	44:6 45:3
67:1	26:13 29:10	58:9 60:10	high 28:4	52:2,19 53:7
gotten 48:6	35:1,8,18,18	60:16 65:14	higher 29:18	54:20 58:22
governed	35:21,21	69:3,4 70:11	29:18 31:21	61:12 63:3
55:16	37:22 39:15	70:15,15	32:14 45:12	64:16 66:10
governing 4:12	39:20 47:10	72:4,5,13,16	48:16 52:22	67:2 68:4
greater 72:8	48:5 49:21	72:17 73:15	70:20 73:8	69:14
group 6:10 7:5	54:21 56:21	73:20,20	hundred 11:21	
7:22 10:4	60:19 61:1	74:19,19	21:1 58:11	
11:7,14 19:6	61:20 62:22	75:3 76:4	60:17 61:18	
36:12,14	63:7,8 66:14	78:13,14	61:20	
40:12 42:20	67:22 69:1	having 4:2	high-priced	I
52:4 58:7,20		15:15 32:6	77:2 78:8	

David B. Morris

Highly Confidential

January 5, 2005

9

idea 41:1 identified 36:19 if 15:11 19:16 22:20 25:4 26:17 29:5,8 29:21 31:12 31:16 32:17 32:22 33:5 35:1 37:22 39:3 40:18 42:5 43:16 44:12,22 47:11 48:1,6 48:8,13 49:2 50:20 54:4 55:3,4,10 64:19 66:4 70:14,16,19 70:19,21 71:17,19 73:3,18 75:20,20 76:14 77:1 II 36:19 37:3 40:1,8 III 36:20 37:3 40:3,8,19 impact 11:9 impacts 52:16 impossible 69:4 impression 24:3 61:14 74:6 Inc 1:20 2:16 incent 41:3 53:14 incentives 32:19,20 33:14 55:18 70:16 include 9:15 42:14 43:13	included 9:16 includes 6:2 including 34:15,19 51:19 inclusion 20:9 income 55:12 increase 33:1 71:19,20 increased 53:13 increases 76:13 independent 15:14 21:21 indicating 19:19 indirectly 52:9 individual 10:2,3 16:9 40:10 69:2 INDUSTRY 1:8 infomatics 7:8 informatics 7:7,8 information 11:2 71:3 Infrastructure 72:22 ingredient 67:15 68:1,5 68:6 initial 19:12 34:11 66:5 initially 5:13 72:19 initiating 5:4 42:22 input 6:19 10:10 52:11 instantaneou... 45:10 instead 22:14	53:9 institution 49:22 insuring 76:15 Integrated 3:12,15 18:16 30:7 increase 33:1 71:19,20 increased 53:13 increases 76:13 independent 15:14 21:21 indicating 19:19 indirectly 52:9 individual 10:2,3 16:9 40:10 69:2 INDUSTRY 1:8 infomatics 7:8 informatics 7:7,8 information 11:2 71:3 Infrastructure 72:22 ingredient 67:15 68:1,5 68:6 initial 19:12 34:11 66:5 initially 5:13 72:19 initiating 5:4 42:22 input 6:19 10:10 52:11 instantaneou... 45:10 instead 22:14	22:8 36:6,9 38:14 52:8,9 involvement 35:12,15,18 35:21 In-house 2:22 isn't 17:14 integrating 51:11 intent 33:7 37:20 intentionally 44:9 interact 11:22 interaction 50:8 interested 71:20 79:13 internal 6:2 9:20 10:6,8 35:5 53:6 internally 9:19 10:1,10 14:15 43:2 56:3 into 5:12,16 8:22 16:9 18:17 19:6 19:10 21:12 24:4 30:8 34:15 35:17 36:11,12,14 45:8 57:20 58:4 65:14 71:3 72:8 76:5 involved 8:16 9:3,8,18,21 10:10,13 11:13,18 12:2,21 13:12,20 14:3 19:3,7 19:14 20:16	job 65:14 JOHN 2:17 join 4:17 joined 8:7 57:11 jointly 32:22 June 79:3 just 4:22 14:4 14:8 15:10 15:22 16:4 17:21 22:9 22:20 25:1 29:18 31:3 33:3,11 41:10,21 42:7,7 49:6 50:3 53:17 61:8 62:4 66:21 74:12 75:13 K keep 56:2 kept 53:1 76:3 kick 44:21 kind 11:2,2 12:5 13:12 19:14 24:4 28:9 33:11 43:2 77:19 78:1 kinds 12:3 43:5 know 6:17 9:6 9:19 11:1 12:1,13,21 13:4 14:10 15:6,12,13 16:20 17:2,3 17:6,7,9,19 22:3 23:15 24:2 25:9,13 25:14,15 26:15,16,17
--	---	--	--	---

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

10

28:10 33:5 33:11,11 37:10 41:5 41:13,14 43:4,4 44:8 44:12 45:11 46:11 50:3 52:13 55:4,4 55:6,12 58:9 59:21 61:1 62:4 63:3,16 63:21,22 65:13 66:4,7 66:13,19 67:4,12,15,19 68:16 69:6,7 69:18 70:12 70:13,19 71:18,22 72:14 74:8 75:13 77:15 77:17 knowing 23:4 knowledge 12:19 17:11 21:11 35:1 47:10 60:15 known 7:22 13:19 35:3 45:16	leaders 44:9 least 42:22 legs 64:20 less 22:1 28:14 44:16 45:2,5 45:12,21 46:12,13 54:8 78:9 let 10:9 20:5 25:1 33:20 35:11 36:2 38:17 40:13 49:13 61:8 70:7 letter 20:2 let's 42:17 63:6 63:6,12 level 28:4 71:18 73:16 lieu 71:1 like 5:5,7,14 6:17 47:6 48:21 58:20 67:22 70:2 70:17 72:3,4 72:6 77:16 limitations 49:7 limited 34:19 limiting 72:2 line 15:21 lines 39:17,22 40:4 62:19 lipid 72:5 listed 46:22 47:5 listen 74:10 LITIGATION 1:9 little 17:14 23:13 47:17 52:22 54:8 74:11 LLC 20:7	LLP 2:11 loaded 40:12 local 48:20 57:18 located 49:18 long 73:11 longer 12:11 look 17:22 24:6,9 29:6 30:20 31:16 39:3,5 40:14 40:18 41:7 41:11,15,19 42:6,11 43:16 54:12 64:20 68:16 70:2 77:1,13 looked 13:15 44:1 56:20 63:8 looking 24:14 31:8 34:5 41:18 46:10 72:10 73:10 77:8,9 lose 52:16 loss 44:9 lot 10:22 44:11 48:8 67:1 77:22 loudly 69:18 lower-of 45:15 lowest 43:18 44:20 Lyon 12:11 L-Y-O-N 12:11	53:1 55:13 55:22 56:1 main 2:4 10:2 maintained 37:8,10 Maintenance 36:20 37:18 40:16 43:20 majority 54:14 make 17:21 29:22 33:12 42:5 45:14 55:21 60:13 61:20 72:16 77:20 making 29:16 51:14 52:12 69:9 manage 33:1,6 managed 20:7 31:13 32:7,9 58:1 75:22 management 5:7,10,13,15 5:21,22 7:6 9:20 10:6 19:14 51:10 53:5 manager 6:15 71:1 manager's 5:16 managing 6:3 manner 32:11 manufacturer 20:9 23:5 48:6 72:10 77:17 manufacture...	70:7,9 71:15 73:9,14 manufacture... 20:12 67:5 many 15:19 33:8 margins 56:1 68:17 70:1 mark 18:10 30:4,6 marked 18:12 18:15 30:9 market 5:2,4,4 46:11,15 49:6 54:2,3,4 67:6 69:16 70:13,14 marketing 6:21 10:19 10:20 11:10 marketplace 43:6 52:15 64:13 72:3 72:13 married 44:14 Mason 49:18 Massachusetts 1:2 2:6 master 3:13,16 18:16 30:7 matter 41:20 maximize 73:19,21 may 15:1,18 25:13 29:22 34:2,14 44:8 44:9 48:5,5 54:12 64:20 maybe 11:12 27:3 77:15 78:7 me 4:20 10:9 14:7 20:5 22:9,12,20
L L 1:17 79:1,20 language 24:14 25:6 26:3 31:11 large 1:18 25:20 29:11 48:21 54:5 61:21 76:15 79:1,2 Larry 19:16 last 8:2 law 1:19		loudly 69:18 lower-of 45:15 lowest 43:18 44:20 Lyon 12:11 L-Y-O-N 12:11	managing 6:3 manner 32:11 manufacturer 20:9 23:5 48:6 72:10 77:17 manufacture...	master 3:13,16 18:16 30:7 matter 41:20 maximize 73:19,21 may 15:1,18 25:13 29:22 34:2,14 44:8 44:9 48:5,5 54:12 64:20 maybe 11:12 27:3 77:15 78:7 me 4:20 10:9 14:7 20:5 22:9,12,20

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

11

24:10 25:1	72:18 74:16	32:18 40:15	10:16 51:11	my 5:3,12 6:13
32:20 33:20	74:18 75:6	mom-and-pop	Mr. 3:5 4:5,8	6:14,18 12:8
35:11 36:2	Medco's 28:11	48:22	4:10,14,15	12:19 14:6
36:22 38:17	32:10 34:17	money 22:4	8:2,6,10,18	15:8;14
39:18 40:13	45:8	23:12 33:2	8:20 10:14	17:13,14
41:6,17	medical 6:20	55:21 58:19	10:15 13:2,6	19:12 20:20
49:13 61:8	7:7 19:16	69:9 72:11	13:10,14	21:11 24:3
70:7 79:5,6,8	meetings 12:5	moneys 23:9	15:10,16,20	28:19 33:18
mean 11:18	mentioned	23:12 26:14	16:3,6 18:10	34:10 40:1
15:14 17:18	57:3 60:16	26:17 28:5,7	18:14 20:2,4	55:1 59:20
25:13 26:15	Merck 14:17	28:12,15	22:16,19	60:15 61:13
27:7 31:22	14:22 15:4	33:4 35:2	24:13,15	61:17 64:12
33:8 37:6	21:7,13 22:7	61:15 70:21	25:1,17 27:8	64:20 69:8
41:2 44:11	32:6	73:19	27:9,18,21	74:6 79:8,15
46:20 48:18	Merck-Medco	month 26:6	29:7,21 30:2	M-O-R-R-I-S
50:22 52:13	9:4 14:2,18	62:20	30:4,10,12,15	4:7
55:6,20 59:4	15:5,7 19:1	months 23:10	31:5 33:15	M.B.A. 57:13
59:21 60:16	20:7 60:8	23:13 58:21	33:16 34:2,5	57:17
61:16 62:4,6	mere 15:21	64:10	34:8,9 35:14	
64:6 66:20	methodology	more 7:20 11:1	35:16 38:13	N
69:1,16	25:3 62:10	11:5,16 22:1	38:16 39:2,4	N 3:1
71:17 74:8	Michael 66:17	24:16 28:14	39:9 42:1,3,9	name 4:6
74:21 75:5	mid 57:13	29:19,20	49:6,8,10,12	14:20 19:18
75:17,20	middle 24:4	34:22 40:7	50:3,7,12,16	23:21
76:3 77:13	62:9	45:21 55:14	54:11,17	named 14:12
Medco 9:5	might 34:21	72:11 73:11	55:3,8 57:2	66:17,18
14:19,21	43:6,7	74:6 76:12	58:6,8,17	names 8:4
20:12 22:1,7	migrated	Morris 1:16	60:4 61:8	13:17 14:5
22:13 23:8	75:21	3:5,12,15 4:1	63:18 64:2	naming 14:15
23:20,22	Mill 1:20 2:18	4:7,15 18:11	64:19 65:1,4	National 13:19
24:21 25:9	mind 21:22	18:12 30:5,6	65:5,7,8,11	13:22 14:12
25:19 26:12	61:17 68:4	30:9 36:3	65:18,20,22	nationally 37:3
29:11 32:12	minus 18:2	79:5	74:2,13,21	nationwide
33:2,11	40:17,19	most 37:21	75:1,16	39:21
34:13,21	41:9,10,21	41:13 45:22	76:10,18	necessarily
37:2,10,20	43:20 68:9	58:12 67:21	78:12,15,17	13:7 29:15
40:2 50:18	69:9,10	72:3 77:15	much 26:7	47:5
51:12 52:6	minute 27:2	motivation	31:20 53:7	need 11:4
53:8 54:22	minutes 65:6	55:10	63:3 64:16	15:12 27:18
55:11 56:20	missing 34:3	move 52:5,5	69:13	29:8 55:4
59:8,13,14,17	mistaken 68:2	55:11	multiple 24:1	needed 62:5
60:12 61:22	model 49:21	moved 5:6,11	38:22 51:19	negative 28:5,8
63:3,7 64:17	51:11	5:16 51:3	53:17 56:7	negotiate
71:11,15	moment 30:20	moving 6:17	56:13	21:17 52:22

David B. Morris

Highly Confidential

January 5, 2005

12

53:4 54:7 negotiated 16:18 21:20 22:7 24:10 37:8 40:5 50:18,21 53:3 59:13 59:18 60:22 61:4,19 74:18 negotiating 6:11 9:21 13:9 23:16 23:18 38:15 64:4 71:8 77:7 negotiation 9:1 10:11 13:13 19:3,7 22:10 24:5 negotiations 8:16 10:3 12:18 13:5,8 20:17 56:13 56:14 60:12 67:2 netted 28:9 network 8:13 9:1,2,7,9 10:22 17:8,8 17:19 18:1,6 32:1 36:19 36:20,21,21 37:8,9,9,18 37:19,20,21 38:4,5,12,21 39:20 40:1,2 40:8,16,19 41:14 43:20 52:17,19,22 53:17,18,19 54:6,15 55:15 68:6,8 68:18 69:7	networks 6:11 7:17 35:22 37:1,2,3 38:7 38:22 39:15 40:7,22 43:5 53:17 never 47:14 66:7 67:4 75:13 76:5 new 2:13,13 9:7,9 21:12 22:21,22 27:16 28:1 40:2 56:6 60:1 next 14:6 NICHOLSON 2:17 4:8 8:2 8:18 10:14 13:2,10 15:10,20 20:2 22:16 24:13 25:1 27:8,18 29:7 29:21 33:15 34:2,8 35:14 38:13 39:2 42:1 49:6 50:3,12 54:11 55:3 58:6 61:8 63:18 65:18 74:2,21 76:10 78:17 nine 23:9,13 58:21 64:10 None 50:14 non-formula... 26:5 non-managed 31:14 32:8 non-Virginia 50:10 Nope 78:15	nor 79:12,13 Norfolk 79:3 79:16 not 9:20 12:19 13:7,12 14:19 15:22 17:11 19:7 19:13 21:11 21:18,19 24:3,17 25:10,20 26:22 27:13 28:6,7 29:13 33:8 34:19 36:8,8 37:10 38:14 39:1 40:22 41:12 42:7 44:3,21 45:21 48:5 50:5 52:8 53:22 54:3,6 55:1,6,7 56:2 60:10,20 61:12 63:3 63:21,21 64:9 67:14 68:20,21 69:13 72:6 73:10,10 74:11 75:18 77:17 78:15 78:19 79:11 offer 15:22 2:3 30:10 49:8 65:5,8 78:15 notarial 79:15 Notary 1:17 79:1,22 note 61:8 notes 64:20 nothing 76:2 noticed 9:15 notoriously	23:8 November 20:3 now 6:18 9:5 9:14 12:15 14:19,20 17:6 18:22 19:6 28:20 29:7,9 30:1 31:16 38:7 43:16 45:3 48:10 49:18 50:12 53:3 54:18 64:10 67:19 nowhere 69:8 number 41:21 46:4 56:14 numbers 30:11 30:14 O oath 79:6 object 13:2 61:12 63:3 63:21,21 64:9 67:14 68:20,21 69:13 72:6 73:10,10 74:11 75:18 77:17 78:15 78:19 79:11 offer 15:22 2:3 30:10 49:8 65:5,8 78:15 notarial 79:15 Notary 1:17 79:1,22 note 61:8 notes 64:20 nothing 76:2 noticed 9:15 notoriously	Okay 7:4,15 8:9 11:18 12:17,20 13:7,15 14:2 15:2 16:2,15 17:3,12 18:9 18:19 21:19 22:9 31:7 33:13 34:8 37:14,17 39:10 42:19 43:13 45:16 46:3,14 48:10 51:8 55:9 58:18 59:12 63:14 old 60:1 once 73:2 one 2:4 8:8,11 15:8 22:8 23:19 34:22 40:7 43:16 43:18 53:17 53:20,20 54:1 55:10 59:13,18,22 62:1 70:19 70:21,21 71:8 72:5,5 74:10 77:2,8 ongoing 22:4 75:15 only 26:15 70:20 76:13 operating 55:12 operations 5:7 5:18 72:20 opinion 28:19 64:12 69:9 opposed 62:14 oral 1:15 44:11 44:16 45:4 order 4:13
--	--	--	---	---

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

13

9:16 13:20 34:8 46:20 46:22 organization 8:7 original 14:9 14:10 Originally 40:1 other 8:4 11:11 11:22 19:10 21:13 23:18 29:3 32:11 33:3,6 34:20 43:5 44:15 44:20 50:8 52:18 56:21 62:17 69:19 73:16 75:5 76:1,11 others 40:22 60:21 otherwise 79:12,13 our 6:1,15 9:6 11:9 21:22 22:4 26:6,9 29:14,19 32:12 33:1,7 37:20 44:18 52:16 53:15 55:17 56:3,4 61:21 64:13 68:18 70:3 71:19 72:18 75:6,20 77:6 out 9:4 11:7 23:10,13,15 26:3,5 28:9 28:12 33:4 34:8 47:12 56:7 58:22 61:13 66:17 66:21,22	69:15 73:10 76:20 78:2 outcome 22:10 outcomes 5:8,9 outside 38:1 50:13 51:4 over 5:1 11:6,17 7:15,21 8:15 8:16 16:8 49:15 55:14 71:20 78:1 overall 6:5 28:10 77:20 owe 26:7 own 15:14 37:12 49:17 68:4 owned 37:2,5,7 owns 49:17	P package 42:7 56:20 77:21 78:10 page 3:4,10 19:20 20:5,6 31:12,13 34:3,7 36:2 36:19 39:8 41:20 paid 7:16,22 8:11,16 9:4 9:15 13:18 14:9,13,14,17 15:7 16:7,8 16:17,17,21 16:21 17:3 17:16,19 18:1,5,22 20:10,14 21:1,7,13 22:7 28:6,6,7 28:7 29:18 29:18 31:17	76:9 pay 16:16 paragraph 28:12 33:2 54:7 58:3,11 61:18 70:20 73:9 paycheck 8:8 paying 16:21 16:21 17:3,7 23:9 32:1,3 33:3 48:1,2 48:15 49:2,3 59:4,21,22 60:6 67:13 69:5 74:6 75:4 76:14 payments 24:21 pays 45:2 10:3,11 11:15 13:9 13:13 14:10 20:20 23:5 26:8 35:5,12 35:19 43:3 49:18 51:1,4 51:5,16 53:6 54:19,21 55:11 61:2 65:10,10 73:17,21 76:6,20 77:7 77:11 78:6 PBMs 23:3,3 23:16,18 24:1 35:8,18 past 67:4 Patterson 2:11 pause 16:5 18:13 24:12 30:3 31:2 39:6 57:1 60:3 64:22	percent 11:21 13:11 20:11 20:14 21:1 21:17 40:17 41:10 43:21 46:12 53:9 54:3,10,15 58:11 60:17 61:18,19,20 61:22 67:12 percentage 61:6 period 8:5 19:11 23:10 27:11 66:5 72:19 periphery 12:3 Perrin 12:16 12:17 13:12 Perry 66:18 person 7:10 perspective 25:11 28:13 62:13 78:3 per-claim 21:21 26:4 28:21 29:1 31:9,14,16 32:6 62:18 63:1,4,8 74:14,15,17 75:4 per-contract 62:20 PHARMAC... 1:8 pharmacies 8:13 16:10 37:21 38:2 39:20 44:8 44:12 46:20 47:17 48:14 48:20 53:14 54:15 57:8
--	--	--	---	---

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

14

57:10 69:2,7 pharmacist 5:14 19:13 41:17 42:2 57:15 68:13 68:14 pharmacists 18:2 44:2 69:14 pharmacist's 41:7 43:18 pharmacy 5:12 5:21 6:1,11 6:15 7:6,17 9:12 10:6,9 11:17 16:10 16:18,18,22 17:4,10,16 31:21 32:7,8 35:22 37:1,2 37:7,12,15,19 38:3,5 40:6 45:11 48:22 52:6 55:13 57:4,4 61:10 65:19 66:14 66:16,20 69:5 71:1 pharmacy's 44:5 pick 27:19 pills 44:22 place 27:12,13 28:1 Plaintiff 2:2 plan 22:3 40:10 49:19 plans 6:12 26:13 50:22 57:22 75:22 play 10:18,20 11:3 76:5 played 8:22 13:4	please 25:4 61:11 plus 40:19 41:9 41:21 68:10 PPMP 62:19 62:20 point 5:18 14:11,17 24:13 27:14 45:12 47:3 59:2 67:9 69:6,17 71:21 72:2 points 39:16 40:5 policy 19:16 position 5:6,12 5:16 6:6 positions 4:21 5:1 positive 28:5,8 possible 12:20 13:3 44:20 potentially 52:16 77:4 practice 20:20 preexisting 14:21 prescription 3:12,15 13:19 18:16 30:7 51:10 53:5 62:10 Prescriptions 7:16,22 8:12 14:9,18 15:7 16:8 19:1 president 7:2,4 pretty 56:1 previous 49:7 previously 8:4 12:8 price 1:9 44:7	44:10 45:1 45:11,13 46:13 47:11 47:11 76:7 prices 43:12,19 44:6 48:16 pricing 36:4,7 38:19 45:9 primarily 40:4 47:17 prime 55:10 principally 11:14 prior 5:15 6:4 20:22 25:2 35:18,21 39:19,19 65:13 proactively 11:2 probably 5:11 6:18,19,21 11:16 12:2 14:11 15:3 17:6 20:19 28:19 30:13 43:4 46:19 48:19 54:8,9 66:12 68:22 problematic 62:3 problems 28:11 procedure 59:3 proceeding 79:13 proceedings 16:5 18:13 24:12 30:3 31:2 39:6 57:1 60:3 64:22 process 24:3	55:20 62:5 produce 77:4 produced 13:16 product 6:21 11:8 44:10 48:4,12 67:6 67:11 68:15 69:5 70:14 72:3 76:7,13 products 20:10 43:12 48:16 67:7 70:18 73:4 profit 42:5 68:17 program 3:12 3:15 18:16 20:13 30:7 31:22 32:7,8 32:9 36:7 38:18 Programming 36:4 programs 34:19 progressed 67:4 project 19:22 23:6 promise 75:6 pronounced 7:9 proposal 51:19 proposals 56:17 71:14 proposing 56:21 70:8 70:22 pros 51:14 71:6,7 protective 4:13 provide 20:10 43:17 52:11	57:22 58:5 64:7,8 70:9 70:15 provided 21:1 provider 16:22 17:4 40:8 41:4 providers 17:17 provides 8:12 providing 10:10 13:8 13:20 71:1 72:9 provision 24:9 24:10 Public 1:17 79:2,22 published 46:4 47:7,11 purchase 46:1 purchased 14:14 pursuant 4:12 8:12 16:7 57:22 58:12 pursue 74:7 pursuing 73:7 put 30:1,13 56:7 69:15 72:8 75:18 76:1,6 putting 78:8 p.m 1:19 78:20
Q				
qualification question 12:2 13:1 14:6 15:12 15:17 16:20 17:13,14 38:14 44:3				

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

15

63:19	32:6,14 33:4	31:9 33:18	17:2 46:7,8	37:17,21
questions	54:20,21	recommend...	74:9 75:3	38:2 40:16
34:10 61:9	58:14 61:2	25:12 29:12	relative 11:3	42:18 43:20
78:13	62:10,17	reconsiderat...	rely 26:8,10	46:1 47:18
quick 65:5	63:4,8 67:10	.6:4	61:1	48:14,19
quicker 23:13	67:17 71:14	record 4:9	remained	53:8 57:4
quite 49:2	72:10 73:19	30:13	53:12	retailer 48:1
	74:15,18	recorded 79:7	remember	48:11 49:2
R	75:4 78:7	Red 47:6	27:6	retailers 48:15
ramp 72:20	rebates 9:17	reduced 79:8	renegotiate 9:2	retain 20:14
ran 27:15	11:15,20	reference 24:7	Repeat 7:18	retained 63:16
Randy 7:14	12:4 20:6,8	32:18 34:1	replacing	retains 34:13
ratchet 70:1	20:11,18	40:17 44:5	21:22	return 16:21
rate 54:2	21:2,8,14,17	references	report 7:1,2,10	22:14
rates 39:15	21:21,22	33:20	20:1	review 5:14
42:11,18	22:2,13 23:2	referred 24:19	reports 7:2,11	6:3
69:12,15	23:6,11 24:8	34:10	represent 10:4	reviewing 5:4
rather 33:3	24:17,18	referring 8:7	request 37:20	9:14
55:15 56:2	28:18 29:18	8:18 12:22	51:18	re-do 9:6
58:20	29:18 30:21	19:20 30:16	resale 46:1	RFP 24:3 56:7
RDR 1:17 79:1	30:22 31:3	68:9	research 5:2,4	66:2
79:20	34:12,14,21	refers 8:3 25:6	5:5,7,8,9	RFPs 66:10
RE 1:7	55:22 58:5	refresh 30:21	responded	Richmond
reacting 69:14	58:11,20	58:11,20	56:8	1:12,21 2:20
read 78:17	59:4 60:6,17	region 54:3,5	responsibilit...	79:5
ready 69:1	61:7,12 62:5	reimbursed	4:22 5:3 6:16	right 10:8
real 28:4,11	62:15 64:9	17:10 18:2	responsibility	17:21 18:4
41:1	65:17 67:7	40:9	6:14	19:18 26:18
really 10:21	70:10 71:13	reimburesem...	responsible	29:7 30:1
11:1,2 12:1	71:19 72:18	9:11 16:17	5:18 6:10,14	31:15 40:11
13:4 17:6	73:2,5,8,12	16:19 17:15	7:4,6 11:14	49:5 50:12
21:21 28:9	73:16,22	18:6 36:15	42:20	55:18 60:13
32:9 43:1	74:4,12	38:8 39:11	restrict 70:17	73:1 75:7
61:13 67:4	recall 11:12	39:15 41:8	restricted 72:6	78:12
69:4 71:19	19:17 23:21	41:20 42:6	result 20:9	risk 75:22 76:2
71:21 73:11	25:5 26:3	42:11,18	24:1 34:18	Road 1:20 2:18
realtime 58:20	29:3,9 47:4	43:10,17	36:14 71:10	Roche 48:7
64:8	62:8	44:2 53:2,7	resulted 66:3	role 9:1 10:18
reason 26:10	received 20:11	53:20 68:13	results 28:3	10:20 11:3
62:1	receives 20:7	68:18 69:12	retail 8:13	13:4 19:12
rebate 21:8	34:13	69:15,19	16:18 31:13	71:3
23:10 28:12	recess 49:11	related 79:11	31:14,21	Roles 6:16
28:15 31:9	recognize 77:3	relation 50:15	32:1,7,7	Ron 12:11
31:17,20	recollection	relationship	36:20 37:17	rough 46:8,9

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

16

roughly 6:9 32:2,3 57:14 62:9 rounds 56:14 RX 14:12	64:8,9 76:16 seeing 17:9,9 29:3 55:1 seek 44:2 60:13 seeking 22:21 73:21 Sachs 66:17 safety 76:12 said 26:3 28:14 67:9 68:7 75:10 sale 45:12 sales 6:21 10:1 8,20 11:10 61:9 same 4:8 13:10 15:8 48:12 48:16 53:2 53:12 66:2 73:16 78:6,8 savings 56:4 saw 12:21 22:22 24:19 33:5 69:14 say 8:6 11:3 20:14 26:7 27:18 37:5 53:3 54:6 59:16 61:4 63:6 says 18:1 50:4 Schedule 36:4 38:18 39:7 school 57:12 scream 69:18 scrip 25:15 Scrips 23:19 seal 79:15 second 34:2 securing 34:21 see 17:12 25:22 29:8 40:13 40:17 55:4,5	should 11:19 11:20,20 28:6,7 30:2 30:13 41:11 42:6 57:3 show 29:5 side 19:14 53:8 70:4 sign 41:14 78:17 signature 19:20 78:19 similar 4:10 38:3 63:1 sends 8:8 sense 29:22 56:10 71:13 sentence 34:12 sentences 34:11 separate 69:21 serve 12:17 service 14:11 31:20 32:2 38:3 53:1 55:13,22 56:1 72:9 services 14:12 34:18 51:4,5 52:6,18 58:1 69:20 70:8 77:11 set 17:7,19 18:1 41:1 64:8 79:5 shall 20:14 share 64:17 70:13 sharing 11:20 she 27:19 she's 44:13,14 44:15 Shield 4:16 short 49:8	61:6,19,21 62:18 64:3 71:18 72:19 77:14,22 78:7 someone 47:12 something 10:22 14:13 14:14 15:18 29:15,17 36:10 38:20 42:20 48:7 54:8 59:7 60:19 63:1 68:1,2 72:12 78:1 Sometime 51:9 somewhere 46:11 sorry 5:8 7:18 34:7 35:14 44:4 65:7 sister 55:17 situation 23:14 44:19 situations 44:18 size 48:17 slightly 40:3 small 48:20 smart 44:12 solely 6:13 soliciting 24:1 Solutions 9:5 14:19 some 12:3 15:14 17:15 19:11,22 23:9 27:14 28:11 33:2 35:15 37:22 41:3 43:7 46:13 58:9 60:16,20	Staples 1:20 2:18 started 13:18 14:10 starting 4:20 state 4:6 38:1 39:21 50:13 statement 4:9 75:3 states 1:1 20:7 34:13 status 20:1 stay 65:15 steep 47:20 54:8 Stenotype 79:7 step 71:3 Sticking 33:19 still 5:21 6:18 48:18 53:16 69:9 74:4,5 stocked 77:2 stop 17:5 69:6 69:18 77:19 store 44:11,15 strategy 6:21 73:6 74:7 Street 2:4 strength 77:16 stretch 64:19 strike 43:8 51:17 52:3 54:19 56:5 58:3 60:5 74:14,16 structured 62:16 64:11 stuff 5:5 subject 49:6 submitted 43:19 44:6 45:11 subsequent 21:6 24:11
---	---	--	---	---

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

17

26:2 27:14 29:10 30:17 substantially 48:2 substantive 76:2 such 20:9 35:12 47:2 57:21 60:11 60:13 Suite 1:20 2:19 summary 4:22 suppliers 69:3 supply 32:2,3 38:3 support 6:3 suppose 13:3 17:5 63:20 supposed 25:19 supposedly 23:11 sure 13:11 14:20 17:21 26:20 29:4 35:7,10,17 37:22 38:20 39:1 44:3 46:17 47:13 47:22 48:9 49:10 55:7 61:12 64:15 surprised 41:13 switch 51:14 sworn 4:2 79:6 system 28:16 28:17 45:8 45:13 systems 28:12	take 24:9 26:9 27:2 29:15 29:17 30:20 33:20 34:15 39:5 43:11 44:19 47:12 49:8 54:12 56:16 77:18 taken 1:16 taking 43:19 54:7 talk 42:17 talked 14:8 23:4 66:12 talking 14:4 35:13 48:10 50:4 51:10 70:8 target 6:17 technically 21:18 telephone 2:2 tell 14:7,12 15:10 24:10 26:8 41:12 43:4,6 47:13 61:2 telling 72:4 tend 43:17 term 24:16 34:11 45:16 73:11 terms 8:17 9:1 9:7,16,16 11:22 17:8,8 17:20 25:16 25:21 28:11 28:15 29:22 36:4,7,16 37:9 38:6,8 38:11,19,21 39:12 40:3 41:14 42:22	45:22 46:18 56:17 58:7 60:10,11 63:3,22 67:7 68:14 73:5 78:7 testified 4:2 testimony 30:16 than 11:16 23:13 31:21 33:3 44:16 45:5,12,12 46:12,13 48:9,16,19,20 48:22 55:15 56:2,21 58:20 69:19 70:21 71:16 75:6 their 25:10,11 25:15 29:11 34:16 37:4 41:14 44:10 44:16 45:13 51:11 58:10 58:15 68:17 69:13,19 70:1,12,13,13 70:14,16 76:16 them 12:22 15:4 17:7,7 32:13 33:3 37:5 41:15 43:4,12 44:17 45:1,5 45:6 50:15 54:6,7,7 58:11,13,15 58:21,22 62:6 63:22 70:11,15 71:20 72:4	73:9,9,11 75:13 themselves 8:19 60:9 then 4:21 5:11 10:1 11:6 13:19 14:2 14:18 16:9 16:21 18:5 33:1 40:1,18 43:3 47:19 54:7 58:21 71:5,7 75:13 75:14 theoretically 26:16 40:6 therapeutic 34:17 there 8:21 11:20 13:16 14:21 15:1,3 16:5 18:13 19:18 21:6 21:12,15 23:15,19 24:7,12,20 26:11 30:3 31:2 32:18 32:18 33:9 33:13,19,20 34:1,4 35:2 38:18,20,22 39:3,6,7,11 40:1 47:2,2,4 47:7,9 48:18 51:3 54:2 55:10 56:1 56:16,57:1 59:2 60:3 63:16,22 64:22 68:9 69:15 72:19 75:19 76:1,6	76:8,20 77:14 thereof 79:14 thereupon 79:6 there's 15:20 19:18 34:1 34:12 38:20 40:17 44:5 53:22 54:4 55:12 77:22 these 9:14,18 15:15 26:18 36:7,15,18 38:7,11 39:14 40:7 41:13,14 43:11,16 46:18 61:2 they 6:17 9:15 11:3 13:4 14:15,16 15:4 17:10 19:11 24:22 25:9,13 26:15,16,17 28:11,19 33:5,5 35:2 36:22 37:1,3 37:5,7,8,8,12 37:14 38:5 40:7,9,12 41:11,12,14 42:5,6 43:4,5 43:6,17 44:9 44:12,12 45:8,9,11 46:21 47:5 49:18 50:20 54:6 55:21 55:21,22 61:19 62:3 63:12,21 64:8 66:13
T				
table 70:4 75:14				

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

18

66:1 9:22	72:18 73:2,7	time 8:5 9:5	try 26:4 53:14	79:15
67:6,15 69:9	73:19,20	10:14 19:12	62:1 68:17	understand
69:1 7,19	74:3,8 75:2	19:16 23:11	trying 10:21	15:18 17:12
70:1 2,14	75:15,20	23:17 27:11	41:3 58:22	20:16,17
71:2 172:4,6	78:12	36:11 39:16	64:12 67:22	33:9 44:3
73:9 74:10	thinking 22:21	40:5 47:3,12	73:1 76:20	understanding
75:5,9 76:5	29:16	47:16 51:3	turn 16:9,17	16:15 17:15
they'll 44:15	third-party	58:12 59:2	20:5 31:12	18:5 34:20
70:20	73:17	65:18 66:2,5	36:2	45:19 46:6,8
they're 17:6	those 4:22 8:12	71:21 72:19	twelve 23:10	46:9 55:2
26:1 4,15	8:16,17 9:1	75:12 78:8	23:13 58:21	59:20
41:7,8,18,19	9:18 12:5,6	times 32:3	two 23:15	understood
45:5 54:9	13:5 14:8	title 5:20	43:19 66:21	17:22 48:15
64:1 0 66:16	16:12 23:6,9	today 8:8	70:21 74:9	55:9
70:1 9,19,21	23:12 26:2	30:17 50:22	Tyler 2:11	undone 28:17
74:1 175:4	26:17 28:15	52:14	type 22:21,22	union 57:21
76:20	28:16 31:13	told 22:1 37:4	49:22 67:8	unit 35:17
they've 9:16	33:4 36:22	54:1 75:13	68:20	UNITED 1:1
11:7 50:6	37:3 38:1	top 23:15 69:8	types 28:16	University
69:22	39:22,22	69:18,18	34:21	57:19
thing 17:13	44:18 50:12	took 24:18	typescript 79:8	unknown 23:2
74:4 77:14	50:18 56:4	26:3 73:18	typically 9:22	until 57:11
78:6	60:10 61:15	topic 43:1	32:1 46:3	up 17:7,19
things 5:14	63:21 66:21	69:21	55:22 73:7	18:1 27:19
8:11 21:13	67:7,14 73:2	total 41:8,11	41:1 45:7	
43:7 44:15	73:19 76:3,4	41:19 42:6	51:1,11	
47:6 59:13	though 45:21	42:11 68:13	58:15 61:6	
59:18 62:5	48:21 73:12	71:17 77:10	61:20 64:7	
69:19 70:17	thought 71:18	toward 24:4	72:1,20	
73:3 76:1,11	73:15	Towers 12:16	76:17 77:22	
77:3,8,22	thousand 47:1	12:17 13:12	ultimate 10:11	
think 9:3 15:3	three 14:8	traffic 44:10	ultimately	
16:3 17:5,6	23:16 32:3	training 6:3	29:12 56:19	
19:9,15	70:21	transcript 79:9	73:6,15	
21:22 23:20	thresholds	79:10	uncertainty	
25:2 27:2,5	33:10 75:19	trend 32:19,20	23:2	
28:13 33:8	threw 23:15	33:1,6,13	under 5:22	
33:10,11	through 6:15	Trigon 8:4	20:13 26:18	
43:1 46:5	13:15 16:4	11:20 19:1	28:18 30:22	
47:4 58:2,12	27:15 29:22	20:10 21:2	39:10 40:16	
60:1,9 61:1	56:14 75:9	36:21 38:4	51:1,11	
61:16 62:19	tie 69:19	40:16 43:19	53:16 54:22	
62:19 63:7	tied 67:14 75:5	Trigon's 20:13	59:7 63:11	
67:19,21	tighten 72:1	true 79:9	43:6 56:3	
			74:10 79:8	58:16 60:9

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

19

61:2 66:14	very 24:5	way 9:22 15:14	56:11 57:14	53:3 56:5,19
69:4 72:12	62:16 73:5	16:3 23:1,4,6	61:13 62:3	57:7 59:2,10
72:19 74:10	vice 7:2,4	31:22 41:2	64:12 66:2,9	60:6 61:4
75:4,7,9 76:3	view 22:12	58:19 63:22	66:13 67:6	65:2,9 66:1,5
76:14	viewed 11:3	64:12 69:11	67:22 68:17	66:9 76:20
use 32:10	71:17	ways 7:9	69:8,9,14	77:3,7
40:21 63:6	Virginia 1:12	Webb 2:11	70:8,8,10,22	where 12:13
64:6,12 73:9	1:18,21 2:20	weigh 77:19	71:8,14,14,19	18:1 23:10
used 14:16	8:3 37:22	well 6:2,7,20	71:21 73:3	31:11 43:21
28:18 37:3	38:2 39:21	6:22 7:7,20	74:15 75:19	47:15 52:15
39:22	49:17,19	10:9 13:7	75:22 76:1	54:2 57:17
using 17:16	50:4,5 51:13	14:6 24:16	weren't 20:16	58:10 62:21
32:9 38:5	51:18 57:18	29:3 31:22	25:18 29:14	66:19 67:9
45:4 62:9,10	65:16 79:1,2	36:11 38:1	29:17 59:20	72:2,20 75:9
62:14,15	79:3,5,16	38:17 39:21	59:22 75:5	77:14,22
77:19	virtue 15:18	42:3 43:3	we'd 67:9	whether 14:13
usual 43:19	28:17	44:5 45:7	we'll 4:8 30:6	14:13,14
44:6,7	W	51:2,16 52:2	40:14 67:11	29:13 41:8
usually 10:6	WAC 45:17,19	53:20 55:3	we're 5:21	41:12,20
12:4	46:3,7,11,18	66:9 70:2	16:20 29:21	46:22 52:5,5
utilization 5:14	47:8,11 48:2	72:13 73:5	35:13 50:4	61:5 71:22
6:3 34:16	48:3 49:2,4	74:14 75:15	58:13,15	76:14,15
71:2 73:4	67:20 68:3,4	78:18	65:4 70:3	which 5:12 8:3
utilize 26:13	68:7	went 9:4 57:12	75:10 76:15	9:5 12:22
utilized 6:11	Wait 27:2 34:2	62:9	We've 18:15	17:14 20:3
utilizing 59:3	waiting 58:21	were 5:3 10:10	whatever 68:8	34:14 44:2
V	64:9	10:12,12	what's 25:9,10	49:18 56:7
VA 18:15 30:6	waive 78:19	19:3,7 20:22	26:5 32:21	57:22
30:13,18	want 9:9 15:11	21:22 23:7,9	44:9 45:19	while 44:15
31:8 36:3	22:16 24:13	23:11,14,16	46:9 52:13	who 7:2,13
vaccine 48:7	26:4,6 27:10	23:18 24:20	55:18 75:6	10:2 12:6,10
value 23:2,11	39:3 42:5	25:20 28:3,6	77:9	45:22 53:3
53:15 77:20	44:18 64:19	28:7,14,16,19	when 4:17 8:6	66:15
various 6:12	68:22 71:22	29:13 30:22	8:22 10:16	whoever 10:1
13:17 34:15	72:1 73:9	32:1 33:1,9	15:4,4 17:5	76:13
34:18 36:15	75:12	33:13 34:5	17:22 19:10	whole 42:6
52:17 56:17	wanted 9:7	35:2,3 36:6	24:19 27:6	69:20
vary 54:3	17:21 22:14	37:10,14	27:11,13,15	wholesale 1:9
vast 54:14	23:12 46:22	38:22 40:4	29:19 32:14	45:20 46:13
verified 15:14	53:14 61:20	40:12 47:2,2	35:11 37:5	46:21 69:1
verifying 17:9	64:6,17 75:9	47:4,5,13,15	42:10 43:13	wholesaler
versus 26:5	wasn't 10:22	47:19,20	45:13 46:17	46:2,20 47:5
32:7 53:8	68:1	48:13,15,18	46:19 48:13	48:9
		52:4,9 56:5	50:3 51:3,8,9	wholesalers

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

20

69:3	50:14 54:14	48:11,14	17:22 18:5	\$1.25 31:18
whom 4:15 7:1	55:6 58:9	49:3,22	22:2 24:18	\$1.50 54:16
7:10 13:17	61:12 63:20	50:17,19,20	28:14 30:16	\$1.87 31:17
71:8	65:9,21 74:3	52:4 54:18	31:8 35:12	63:8
whose 79:3	75:2 76:11	55:13 57:20	40:13 42:20	\$15 45:1 75:21
why 9:9 11:8	78:16,19	60:10,19,20	44:22 45:4	\$2 44:16 45:5
12:22 18:10	wondering	61:5,6,18	45:19 54:6	\$2.25 68:10
19:7 21:19	24:21	62:1,1 63:2,2	55:14,14,15	\$20 44:22
22:12 30:4	word 26:9 73:1	63:5,15,21,22	56:10,13	\$6.36 31:18
30:20 31:20	worded 29:10	64:3 67:18	57:17 63:7	0
39:5 40:21	words 19:10	69:3,11,12	64:9,11,20	002 3:12 18:11
41:1 56:2	32:12 33:3,6	71:3,5 72:7	66:1,10 67:2	18:12,15
62:1 68:21	44:21 62:17	72:18 74:17	67:12 68:4	30:13 36:3
73:8	work 16:4 29:1	74:19,19	69:7,12	003 3:15 30:5,6
will 20:10	29:11 32:13	75:3 77:3	70:11 71:13	30:9,18 31:8
42:11 54:4	47:18 57:10	wouldn't 12:21	72:1,2,16	01-CV-1225...
56:3 57:22	75:6	45:7 63:16	73:10,13,14	1:3
69:16 70:15	worked 9:22	64:4	76:21 77:18	02142 2:6
78:7	30:21,22		77:18	0413283 79:21
WILLIAM	57:3 66:22	X	yourself 30:21	09010055
2:10	75:8,15	X 3:1 67:10	you'd 41:17	30:14
willing 22:2	working 28:20	Y	you're 14:4	09010091
33:2 45:22	32:12,22	Yeah 15:3	19:20 24:14	30:12
47:12 54:9	46:19 47:16	19:18,22	28:20 38:13	1
66:13 67:6,9	48:14 57:7	22:20 29:5	41:3 42:1	1st 18:18 30:8
70:17 73:3	57:14 66:14	30:2 34:5	44:22 52:12	1-1-01 3:16
73:18	works 19:10	39:5 49:10	55:16 58:6	1-1-98 3:13
wit 79:1	worth 73:7	58:8 65:7,12	61:9 64:9	1.3 37:17
withhold 26:17	would 4:6 6:6	65:16,20	67:12 68:9	1:40 1:19
withholding	6:7 9:17,22	67:11 75:1	70:4,16 72:2	10 67:11
61:22	10:1,3,18,20	year 9:3	73:10,10,11	100 21:17
within 4:21 5:6	11:14,21	years 4:18 5:3	73:12,18	10036 2:13
5:9,12,16	12:6 13:4	5:17 6:18	74:5 75:2	101 69:17
6:10 34:16	20:20 26:10	7:15,21 8:15	77:2,3,7,8,9	11 31:12
56:17 70:20	29:5 31:11	14:11 15:19	77:17	1133 2:12
75:22 79:4	32:5,15	16:8 46:19	you've 4:21	12 31:13
without 29:3	36:10 38:1,8	47:15 48:1	16:8 30:16	13 40:19 41:9
witness 3:3 4:1	39:14 40:9	48:13 49:15	49:16 54:5	54:9
8:9,21 13:3	40:21 41:2,6	57:14	69:7,18	14 54:10
13:11 15:13	42:2,14	York 2:13,13		15 40:17 41:10
16:2 25:5	43:15 45:7	young 44:13	zero 28:9	43:20 53:10
27:20 29:9	45:14,14	your 4:6,22		54:10 68:9
31:3 34:4	46:20,21	12:10 16:20	\$	
39:7 42:5	47:9 48:2,11			

David B. Morris

Highly Confidential
Richmond, VA

January 5, 2005

21

16 53:9 54:3,7 54:15 69:10 17 4:18 18 3:12 18:2 66:12 1979 57:9 1987 4:20 8:8 1997 6:7,8 19:6 35:18 1998 14:2 18:18 20:3 23:22 24:6 27:4,14,15,22 30:17 33:19 36:3	48:13 26 46:12 <hr/> 3 3 20:3 3:41 78:20 30 3:15 20:14 39:8 47:1 61:22 79:3 30-day 32:2 336-2000 2:14 354-7697 2:21 <hr/> 4 4 3:5 401 1:21 2:19 482-3700 2:7	97 5:11 6:13 10:16 65:14 66:5 98 30:22 32:17 35:13 59:8 65:14 66:5 99 13:11		
20 14:11 46:12 66:12 2000 9:3 56:6 66:9 71:6 74:18 2001 5:17 24:20 25:2 27:15 28:1 28:17 30:8 33:14 35:13 38:17 39:11 40:14 52:21 54:22 56:5,6 58:12 59:11 59:12,17,22 62:2,9 66:3 74:21 2003 51:9,21 2005 1:13,19 79:17 2008 79:4 212 2:14 2235 1:20 2:18 23 36:2,19 23230 2:20 25 46:12,19 47:15 48:1	<hr/> 5 5 1:13 5th 1:19 <hr/> 6 6.2 20:6 33:21 34:4 6.3 24:6 31:12 6.4 32:18 617 2:7 <hr/> 7 70 20:11 61:19 70/30 20:18 34:6 79 57:10 <hr/> 8 80s 57:13 804 2:21 874:19,19 57:11 63:16 <hr/> 9 920:5,6 34:7 90-day 32:3 38:2			